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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

THE SNOW CLOUDS LIFTED — AND THE SUN CAME OUT . . . to greet President Kennedy as he took his oath of office.

And every citizen, whether Democrat or Republican, was glad that it should be so — because we all wish him well as he moves into the most demanding post in the world, and at a crucial time in history.

The stirring words he spoke were an inspiration to all of us, and I am sure that every thoughtful citizen in this great country of ours will want to take part in translating these worthwhile objectives into action. It is only the methods to be used that we question, not the magnificent goals about which no one eager to maintain the well-being of our people and the preservation of our heritage of freedom would quarrel with.

In our special feature on the inauguration and the State of the Union, Economic and Budget Messages, in this issue, we present a realistic picture of what can be expected in the immediate future and what will take longer to evolve.

But to accomplish our purpose we must all pull together — and that will take greater understanding and willingness to recognize the other fellow's viewpoint than has been shown thus far. Let's determine to examine all proposals with an open mind — and let's not hesitate to call attention to impractical theories that are not based on realities of economic life and human nature as we know them. For the most vociferous are not always the most knowledgeable, and in this age men with a gift of gab and a lust for power can lead us along paths of deterioration and disintegration.

It will take courage and a fighting spirit to win. We've got both.

THE 660 MEN . . . It seems incredible—and it could not happen in any other country in the world, including Russia — that a government would permit a small group of men (in this case the dock workers seeking to enforce feather-bedding) to exercise the kind of power that would prevent 100,000 commuters from going back and forth to their work, and to seriously interfere with the economic processes in a great city like New York, with its 10 million inhabitants.

And this was only a part of the disruptions that took place in communities throughout Connecticut, New Jersey, Long Island, New York State, and as far as Cleveland, Ohio, plus the enormous financial loss entailed by workers unable to get to their place of employment.

To what extent this strike is responsible for the 50% decline in business reported by department stores for Friday of last week, and the estimated sales loss for the week of between 15% and 20% below the comparable

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

period in 1959, is something to think about. With train service completely disrupted, the persistence in maintaining the strike during the storm, when cars, busses and other transportation were crippled, was particularly reprehensible and should not ever be permitted to occur again.

It was too bad that the plans made by a number of irate commuters to attack the offices of the Maritime Union and break up the furniture was not carried out as a demonstration that would have been dramatized in the press, and aroused the people to a realization of the extent to which unions are usurping the power of the United States Government, as well that as Municipalities and States.

The strike clause in the labor laws has led to intolerable abuses, so that it is becoming increasingly clear that labor unions have practically been given the power of economic life or death over the citizens of the United States. This tyranny can only end in the concentration of power into the hands of a few labor leaders, and must eventually lead to a dictatorship unless we put a stop to it now — for it has already gone too far.

At this time, when we need industrial peace of mind in order to be able to cope with the problems we face, and when management is harassed on both the domestic and international fronts, it seems that the least labor can do is to cooperate to make it as easy as possible to meet the problems squarely. Certainly the workers would benefit the most from a sound solution.

I often wonder what would happen if the harassed managerial executives, in a moment of intolerable pressure, would have a brain storm and decide to strike and walk off their jobs in complete frustration. What would happen to labor then — and to all of us for that matter? Thank God these leaders have the sense of responsibility that would make such a step unthinkable. That is where we are lucky.

For a long time now labor leaders have become more and more arrogant and dictatorial, laying down the law at the expense of the worker and ignoring the rights of other citizens not involved in their quarrels. And the new Administration will just have to do something about it if we are going to make the "New Frontier" work.

In fact, the first concrete evidence as to where the new Administration stands regarding labor will be the position taken on the usurpation of power over the country by the unions. The decision to send Secretary of Labor Arthur Goldberg to New York was a step in the right direction, for the union leaders were adamant in refusing to respond to any reasonable suggestion, and Governor Rockefeller had found them to be immovable, with plans already in the works for tying up the whole country. We must now wait to see how the Mitchell Commission will adjudicate the matter. END

As I See It!

THE NEW GOLD EDICT— BOOSTER OR BOOMERANG?

By JACK BAME

A Presidential decree and Treasury regulations of January 14th, completed, with a delay of over 27 years, an Executive order of August 28, 1933, forbidding U. S. citizens to own gold. Until this month, American citizens, while not allowed to own the metal in the U. S., could purchase it abroad in the form of bars, coins, certificates, options or futures contracts. They, and U. S.-owned corporations, regardless of where they reside, now have to surrender gold assets by June 1, 1961.

The recent tendency of the London gold price to hover at levels above the official U. S. price, even with Bank of England intervention sales (with gold obtained from the U. S. Treasury) designed to keep a lid on the quotation there, was a reflection of sustained private demand for hoarding purposes. A rising percentage of these purchases were either known or "guessed" to be for the account of some wealthy Americans, speculating on or "protecting" themselves against a possible devaluation of the Dollar. It was evidently with this in mind that Washington decided to institute the latest ban on American gold buying. Initial reactions to the move have been widely divergent, ranging from extreme

pessimism to somewhat excessive optimism, usually depending on the overall monetary and economic biases of those quoted in various financial centers.

How much gold is involved? Will the edict have crucial or merely marginal implications? What are the likely practical and psychological results? Is the move a sign of capitulation to the power of gold or of another step diminishing its importance? What is its significance in relation to our balance of payments problem?

Implications of the Measure

The actual extent or impact of the new gold ban on both American and foreign gold sales and/or purchases in various gold markets, especially London, is not likely to be great. As regards obligatory sales of gold held abroad by Americans, informed opinion is virtually unanimous in the conclusion that these will be small.

► **Those who place a "guesstimate" of $100 million or less on the total gold involved would admit, even if it is all turned in by the June 1st deadline, that this amount is insignificant. On the other hand, the spokesmen who place the total gold held by Americans overseas at as high as $1 billion think that most of this sum is owned under the guise of numbered accounts in Switzerland, in safe deposit boxes or through various corporate subsidiaries, with foreign directors, all outside the control of Treasury officials. Under this assumption, it is thought that very little of such gold holdings would be surrendered and that such purchases will continue. In any event the new law might be rather difficult to enforce.**

Psychological Considerations

Most of the impact of the extended prohibition of American gold ownership will be psychological—and it is too soon to make any meaningful prediction as to the results. *Perhaps this will never be really known, as I do not think that this move alone will have any decisive influence, one way or the other; my view is, that in the final analysis, it is how we conduct our fiscal and monetary affairs and manage our economy in general that will determine the fate of the Dollar.*

Those who think that the U. S. gold position is beyond the "safe" point, that gold will control the Dollar's destiny, and that the Dollar is on the brink of collapse and devaluation feel that the latest measure will have an adverse psychological effect on foreign central banks and private buyers, who will, in the near future, start a new "gold rush" and run on the Dollar. This group is convinced that the announcement will be interpreted as a sign of Dollar weakness and lead to foreign exchange controls, a gold embargo and an ultimate dollar devaluation.

► **Opposed** to this school of thought stand those who believe that speculative gold purchases by U. S. residents abroad, however small, had and could have unfavorable and out-of-proportion effects, in that foreigners were encouraged to follow suit, thus leading to a "snowball" effect on gold purchases and a possible confidence crisis. **The new decree is thus considered as a reasonable step to bolster corrective balance of payments measures which are being and will be taken and to demonstrate to the public here and abroad that we are determined to solve our payments problems.**

Furthermore, only a relatively wealthy few had the means and the channels available to buy and hold gold overseas, at the same time acting in a manner opposed to national policies and the general interests of the country. The very people who engaged in these operations were those who criticized our official "lack of monetary and fiscal discipline" the most. This writer cannot be overly concerned about the "restriction of freedom" involved against this small group of gold buyers, who do not hesitate to circumvent the law when they stand to have possible gains but shout for its protection at the least sign of trouble.

The Power of Gold

Again, an analysis of the importance of the decree in relation to the role of gold depends on one's personal economic and monetary philosophy and biases. The advocates of gold and those who emphasize its importance and that of "automatic" monetary mechanisms as opposed to "managed" money, interpret the Presidential and Treasury actions as further proof of the inability of money managers to cope with and oppose the power of gold. They point to the new ban as further proof of a necessary return to more widespread use of gold, not only as an international means of payment, but as a basis for the domestic monetary system.

► **Others—including this writer—see the prohibition as a logical extension of the ban on domestic ownership of gold, which should have been taken a long time ago.** Since we went off gold domestically in 1934, any private holding of the metal by Americans runs counter to the policy of utilizing gold for official international settlements and, in effect, withholds needed liquidity from the active international circuit of trade and finance. The latest step, therefore, is consistent with the national monetary structure and with the limited global function of gold. Currencies in practically every country in the world are no longer domestically linked to gold. The new move is merely another affirmation of this reality.

To Sum Up

The ban on overseas ownership of gold by American citizens is mainly a psychological move, designed to further publicize our balance of payments problem and our determination to deal with it. The "gold problem" is not basic but rather a symptom of our payments troubles. Gold difficulties are troublesome and must be faced, but should be kept in proper perspective in relation to our international payments position. The important thing is that we rectify our payments imbalance and at the same time step-up national production while maintaining basically realistic and sound monetary and fiscal policies. There is no easy solution but it can be done.

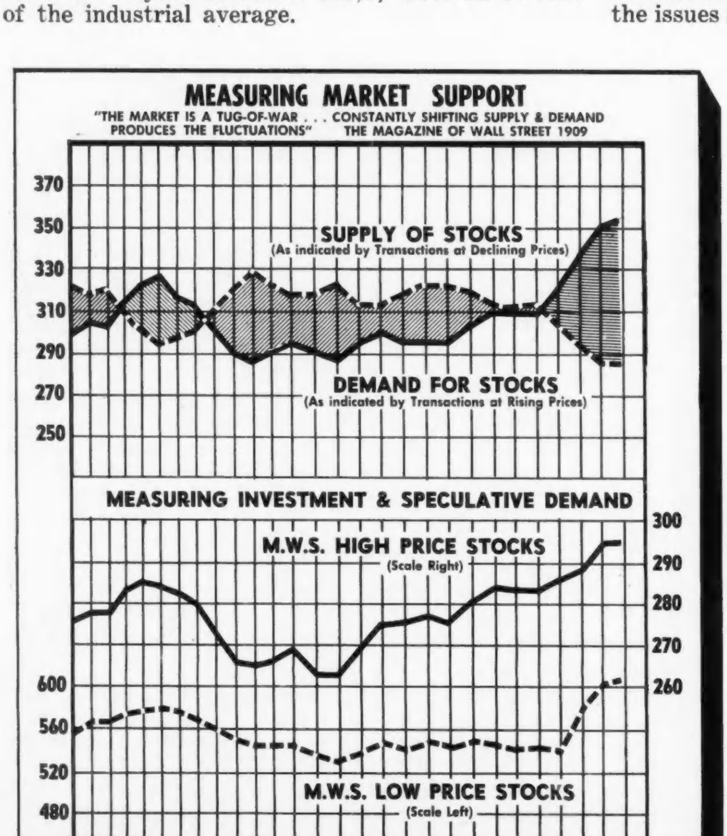
The gold question is but one factor in the situation. The initial effect of the Presidential ban has been some welcome drop in the London gold price. If this persists, some pressures will be taken off the Dollar and the gold drain might slow down—but it is too early to come to any definite conclusions. The new action will basically neither solve nor seriously hurt our payments situation and should not be viewed as either a death-knell or cure-all—it is merely a marginal decision. END

Washington and the Securities Market

Key policies of the Kennedy Administration are yet to be revealed and meanwhile both the timing and scope of business recovery remain conjectural. Thus, investment-speculative optimism rests to a considerable extent on "iffy" assumptions. This is not an opportune time to expand stock commitments. A corrective reaction may well come within the near term.

By A. T. MILLER

IN an irregular and mixed market, the railroad section got more of the spotlight last week than in some time. Attention centered on gyrations in Baltimore & Ohio, touched off by operations of New York Central in its contest with Chesapeake & Ohio for control. However, rails had begun to move by early January, in line with more speculative tendencies generally and the Average's rise over the past fortnight was a news-making 7.19 points or 5.3%, extending the surge since the turn of the year to almost 9.2%, three times that of the industrial average.



The latter added only 72 cents net last week, to the sizable gain (17.76 points) scored in the first two weeks of 1961, but that sufficed to extend the recovery phase begun in late October. The rise from the low approximates 12%, the recovery of the entire prior decline 58%, leaving the average still appreciably under the intermediate-recovery top recorded last August. In all of these terms, it lags behind the broad industrial list, which we estimate has made up over two-thirds of the decline. The relatively poor performance of over a fifth of the issues among the 30 in the Dow average explains the lag. The principal stocks involved are Chrysler, General Electric, General Motors, Goodyear, International Paper, Standard Oil (New Jersey) and Westinghouse Electric.

Although slowed by profit taking, the utility average rose 83 cents last week and 2.62 points, or about 2.6%, on the fortnight. It now stands at another new postwar high. Other income-stock groups performing well include banks, insurance, finance companies, natural gas, soft drinks and tobaccos.

A Look At The Technical Indicators

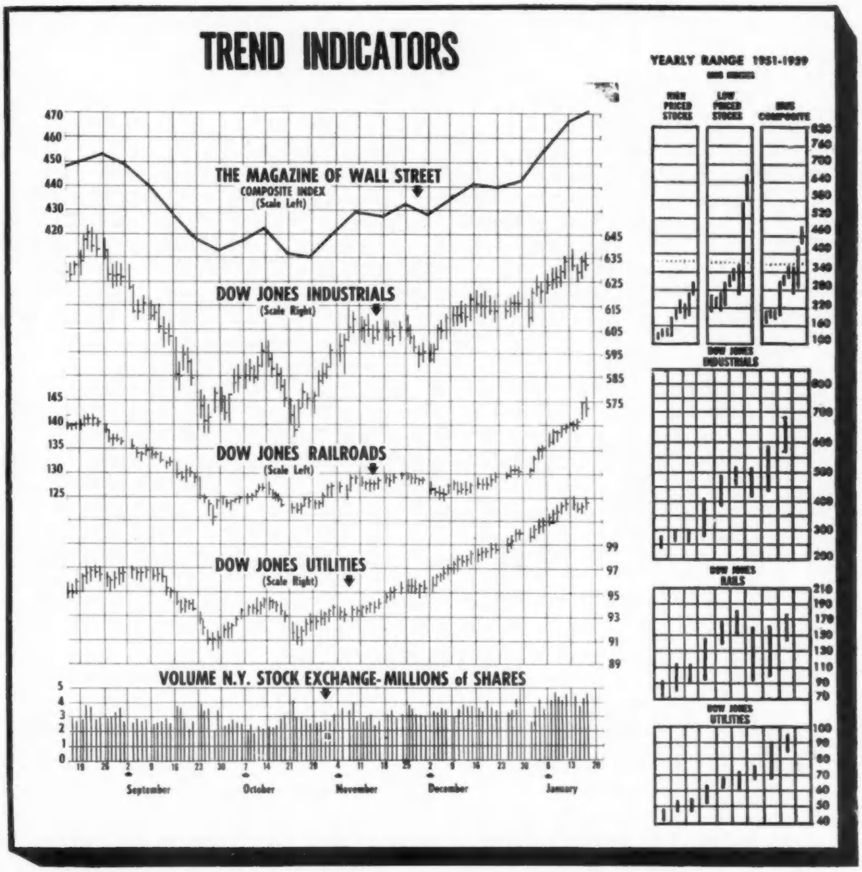
- The principal technical indicators suggest some weakening in the position, pointing to possible reaction in the making. For instance, the odd-lot figures show that the "little people" — wrong more often than not in their near-term expectations — have been buying on balance to date in January, whereas they sold persistently on balance at lower market levels throughout December. Again, the short position as of January 13 had been cut by 619,534 shares, or about 14%, from the level four weeks earlier, reducing this cushion under the market.

- The recent heavy preponderance of new highs over new lows, and of daily gains in individual stocks over declines, could imply an over-bought position. So could the sharpness of the recent shift in our Market Support Measures, charted herewith. However, this does

not rule out possibility of some further rise or upside probing efforts prior to a sell-off.

The market's January performance has been called "a vote of confidence in President Kennedy and in the coming business revival" — with some "inflation-fear" talk also a factor. In any event, it reflects high optimism — quite possibly over-optimism — about what lies ahead. Of course, much is being taken for granted, since nobody can have 20/20 vision when trying to look any great distance into the future.

Kennedy has had a big build-up in the press, partly because of the good will accorded any new President — especially a personable figure—and partly because most political reporters and columnists are "liberals" and therefore partial to him. But confidence in him can so far amount only to general trust in his intentions and objectives. Specific policies, if formulated, have yet to be revealed.



● What is he going to do about the business recession and when? — Will he press for moderate or big increases in Federal spending? — How will he try to handle the gold-drain problem, pointed up by an added outflow of $257 million in less than three weeks of 1961 to January 18 and in which there is threat of crisis? — What are his ideas about taxes? — About the abuses of monopoly labor-union power so glaringly pointed up for the New York City area right now? — How much does his "New-Frontier" philosophy — if it is clarified in his own mind — differ from that of the "New Deal?"

These and other questions are vitally important to businessmen and investors. Of course, they cannot all be answered quickly. But until there are more clues on what to expect from Washington, it must be realized that the hopeful stock market is to some extent groping in the dark.

Comparison With 1958

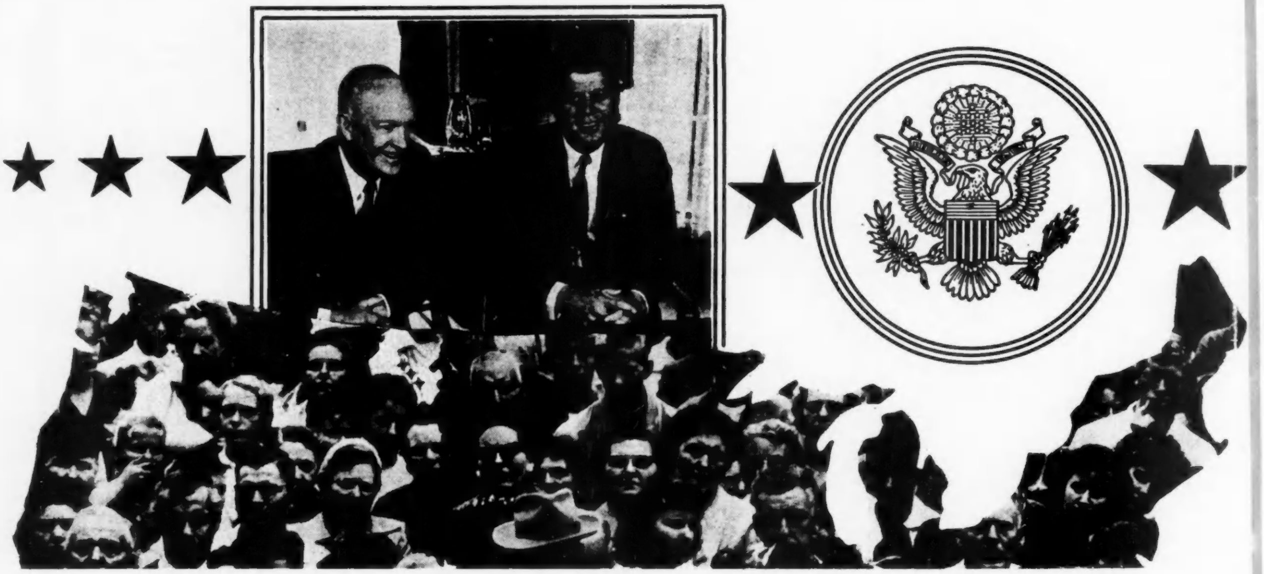
It is true that, in an equally uninspiring environment of recession, the market was pointing upward at this time in 1958, correctly anticipating the later upturn in business and company profits, even though it proved to be disappointing in duration and scope.

However, in relation to earnings and dividends, industrial stocks were nearly 40% cheaper then than now and high-grade bond yield was about 20% lower than now. We know that this kind of emphasis on values is "old fashioned." We know the reason for aversion to bonds. We know there is "confidence" in the future. But no amount of confidence can keep stocks going up indefintely without tangible support from rising corporate earnings; and neither can creeping inflation, since under the conditions we now face, it would further squeeze profit margins.

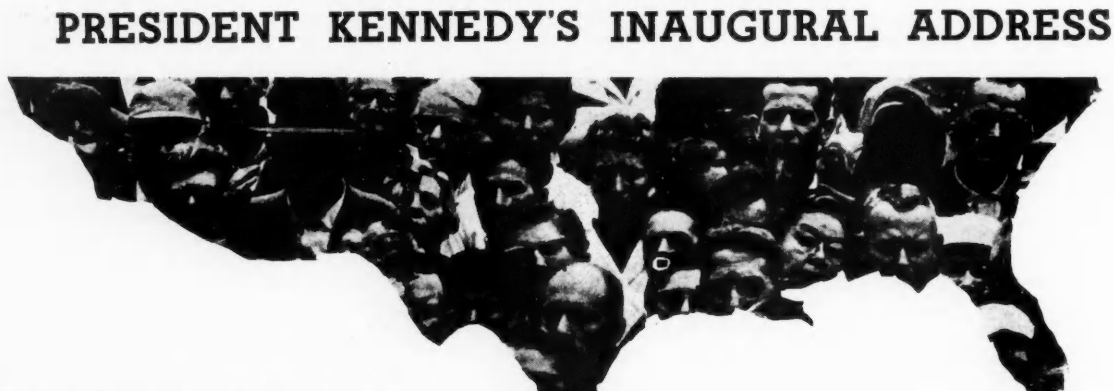
Granting that the future is never an open book, is it not possible, you may ask, that the optimists will prove right, the skeptics wrong? Of course, that is possible, hinging partly on the soundness of Government policies. But in the absence of visible basis for greater assurance now, we still question, because of fundamental reasons discussed here a fortnight ago, whether the business rise will be a strong one, the recovery in corporate earnings more than partial.

Meanwhile, business will get worse before there can be any signs of stabilization. The latest reports show a large further rise in unemployment; another 2-point dip in the Reserve Board's production index; December personal income off $2 billion in annual rate; housing starts at a rate down 18% from November and 32% from a year ago; and sharper cut-backs in January automobile output than had been scheduled earlier.

The market cannot maintain anything like the pace of the first three 1961 weeks, for that would put the industrial average above 770 before mid-year, against about 634 now, while earnings meanwhile fall further. Although never easy to time, sell-offs will not be avoided. — Monday, January 23.



The Inspiring Goals in
PRESIDENT KENNEDY'S INAUGURAL ADDRESS



Significant Aspects in . . .

THE STATE OF THE UNION and ECONOMIC—BUDGET MESSAGES

— Largely immune to Alteration by Kennedy or Congress

By MALCOLM STEWART

★ WASHINGTON — President John F. Kennedy's inaugural address was a trumpet call to all mankind — summoning the peoples of the world to a supreme effort against the "common enemies" — tyranny, poverty, disease and war.

It was a moving appeal for sacrifice and dedication, couched in magnificent rolling phrases which evoked echoes of great presidential speeches of the past.

There was fire, glitter and inspiration in the 12-minute oration in which the youthful new President sought to set the moral tone for his administration.

And there were grim reminders of the perils besetting the path of mankind in an age of dissolution and division, overshadowed by the ominous threat of the H-Bomb.

Kennedy did not, in his first speech as president, go into details. This was not the place nor the time. He was seeking to outline the framework of integrity within which he hopes to sketch in bold strokes a new picture of rising hope and prosperity.

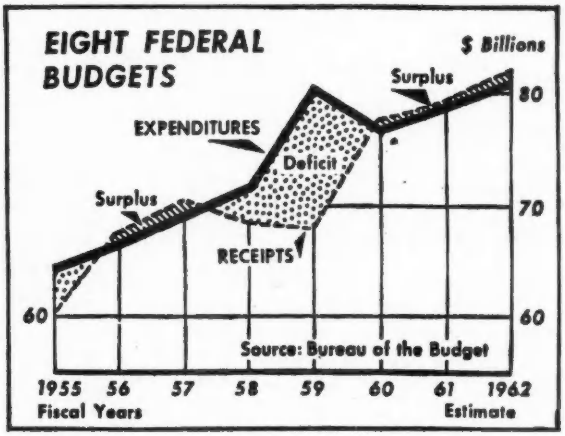
Details will come later. But it was easy to detect, from the broad path outlined by Kennedy, that a balanced budget will be secondary to the principal political, economic and spiritual objectives he seeks

to attain. **"Let every nation know," he said, "Whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend or oppose any foe in order to assure the survival and success of liberty."**

At another point — "To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required — not because the communists are doing it, not because we seek their votes, but because it is right. If the free society cannot help the many who are poor, it can never save the few who are rich."

This was the only point at which Kennedy used the word "Communists." This reflected his feeling that the United States should talk and act positively instead of simply in reaction to the red menace.

But he may well find, as have other presidents before him, that the easiest way to get money out of Congress is to evoke the communist menace repeatedly.



In the address there was a pledge of intensified aid to Latin America, presumably indicating an increase in the $500 million assistance plan for that area outlined last summer by President Eisenhower. Coupled with this was a warning to Russia to keep its hands off the Western Hemisphere.

Kennedy's intention to spend more on defense, until some agreement is reached on international arms limitation and control, was evident in his declaration that "We dare not tempt" our enemies "with weakness."

While warning that he would build up the might of the country, the new president nevertheless looked forward to a time when there might be a possibility to end the arms race.

He called on Russia and all other nations to join the United States in a "Grand and global alliance" to raise the living standards of all mankind. "And if a beach-head of cooperation can be made in the jungles of suspicion, let both sides join in the next task creating not a new balance of power, but a new world of law, where the strong are just and the weak secure and the peace preserved forever."

The "New Frontier" at Home

These, then, were the lofty objectives outlined by the new president. There was not a word in the address about the domestic economy, budget problems, the fiscal tribulations which will beset the "New Frontier."

These things will come in the hard days ahead when Kennedy tries to translate into dollars and cents, into convincing political arguments, the general objectives he has outlined in recent months.

Then will come the conflict in the domestic arena as differing philosophies of economics are pitted against each other in committee rooms and on the floor of Congress.

The transfer of political power from President Eisenhower and the Republicans to President Kennedy and the Democrats has tremendous implications for the business community — domestic and foreign — because of the difference in economic philosophies. Kennedy and his experts differ sharply with Eisenhower on what is wrong with the American economy and what it will take to accelerate it. Added to this, Kennedy's ideas on social welfare programs, the defense posture and other items have heavy financial overtones.

Only time will tell how far Kennedy will go to stimulate what his advisers call a "sluggish and tired" economy. **But it appears certain we are in for an era of heavier Federal spending. A big question is whether we can anticipate a sufficiently expanded economic activity to generate the government revenue necessary to come close to a balanced budget.**

Eisenhower, in his final accounting to the American people, strongly urged that the country stick to his conservative policies and eschew what he considers unsound and unnecessary methods of stimulation.

In his final Economic Report, in his Budget Message and — in very general terms — in his State of the Union document, Eisenhower claimed that the United States economy is strong and the outlook for sound growth good if the Federal government lives within its means and guards against inflation.

He inveighed several times against any suggestions for deficit spending, which he fears the Democrats intend to practice. This course, according to Eisenhower, can lead only to inflation and ultimate financial disaster.

The Two Economic Philosophies

● Eisenhower acknowledged in his State of the Union message that there is "little room for complacency" about the economy, but contended that it was basically sound and expanding. He stoutly refused to use the word "recession" to describe the present situation, despite the fact that many of his advisers have done so.

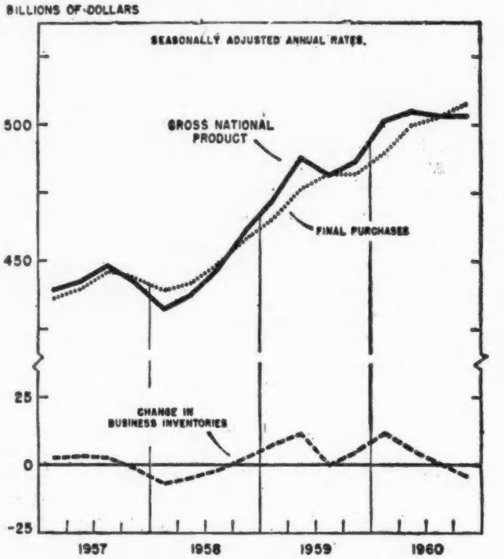
Let us consider first, for purposes of contrast, Eisenhower's Economic Report, submitted to Congress just two days before he left office. It was his last testament on this particular subject.

►In it the diagnosis of the U. S. economy's ailments differed sharply from that of Kennedy's economic "task force" headed by Professor Paul A. Samuelson of Massachusetts Institute of Technology.

Samuelson and other Kennedy advisers contend that the current sluggishness of the economy is

Gross National Product

Final purchases advanced in 1960. Inventory accumulation was substantial early in the year but lessened thereafter and gave way to liquidation.



SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

not a temporary condition but a chronic problem which must be attacked by the injection of $3 billion to $5 billion of additional Federal spending on defense, foreign aid, unemployment compensation, education and public works. If this is not enough, they add, a temporary income tax cut should be granted.

While Kennedy has not endorsed all the "task force" figures specifically, the recommendations of the group are in line with his general economic philosophy.

►Eisenhower rejected this dim view of the situation. His Economic Report emphasized the brighter signs and warned against efforts to speed growth by measures which might unbalance the delicate machinery of a capitalistic society.

The outgoing President, in his Economic Report, noted that U. S. production of goods and services during the past year amounted to $503,500,000,000, the first time in history this figure has passed what he called the "half-trillion" mark. However, a year ago he had predicted the figure for calendar 1960 would be $510 billion.

● Reporting that the U. S. economy grew only 2.6 per cent during the year, Eisenhower nevertheless saw no reason for alarm that the figure was not larger. ● Kennedy, on the other hand, described this growth rate as wholly inadequate to provide the jobs and the wealth needed to maintain U. S. leadership and counter the Soviet challenge.

● Eisenhower blamed the business slump largely on reduction of inventories and implied that this was a temporary problem that would soon correct itself. ● The Kennedy camp dissents strongly.

► Eisenhower predicted an early economic upturn and warned against the kind of pump-priming Kennedy's advisers are urging. Eisenhower said "the basis for advance has been laid in recent years in the enlargement and improvement of our productive capacity and in policies that have brought the forces of inflation under control."

Kennedy's advisers dispute that statement every word of the way and the new President disagrees with it in general and in principle. The difference between the Democratic and Republican assessments was one of the key issues in the Presidential campaign and Kennedy most certainly will take some steps to correct what he considers the shortcomings of the Eisenhower approach. The only question now is how big the steps will be?

Eisenhower left Kennedy a record peacetime budget of $80.9 billion for fiscal 1962 and strongly advised against trying to run the government by "credit cards." He said a $1.5 billion surplus could be achieved if postal rates were raised, if the gasoline tax were increased and if business expands sharply.

These are the same three "ifs" on the basis of which Eisenhower a year ago forecast a surplus of $4.2 billion for the current fiscal year, a surplus which is not going to materialize. Eisenhower blames the almost certain deficit for fiscal 1961 on increased and unrecommended spending by Congress, plus failure by the legislators to enact the new revenue measures he asked.

Now The Budget

Although Eisenhower has left office, his budget deserves careful scrutiny. Kennedy's experts, particularly Budget Director David E. Bell, have prepared a number of budget amendments for Kennedy to submit to Congress shortly.

►BUT IT MUST BE REMEMBERED THAT A LARGE PART OF THE EISENHOWER BUDGET IS IMMUNE TO MAJOR REVISION, EITHER BY CONGRESS OR BY KENNEDY. To a large extent, the budget merely represents a President's informed guess as to what it will cost the Treasury to pay for past decisions made by his Administration and by Congress.

●Kennedy's amendments will be super-imposed on the Eisenhower budget but cannot alter greatly what is already in it. **They can, however, add to the overall spending and that is what Eisenhower feared.**

The Eisenhower budget can be taken as the basic document, with Kennedy's amendments representing the cost of a new philosophy of economic stimulation. **Whether increased economic activity will make up for the increased government spending is something that can only be determined many months hence.**

Bell worked with Eisenhower's budget people for six weeks before the new Administration took office. He is said to have prepared the suggested amendments. Kennedy is expected to send these up to Congress piecemeal rather than all at once.

It is extremely doubtful that Bell or anyone else could, at this point, predict with any certainty what effect Kennedy's amendments will have on the dollar value of Eisenhower's final budget. However, it

is likely that Kennedy's changes will have less impact on the budget for fiscal 1962 than they will have on future budgets.

The Eisenhower budget calls for a spending program $1.9 billion higher than the estimate for the current fiscal year. Major features are:

—1. A $1.4 billion rise in defense spending.

—2. A $250 million increase in foreign aid, which would raise the program to a total of $3.6 billion, with greater emphasis on efforts in Latin America and Africa.

—3. A $195 million increase for space projects, bringing that program for the year to a total of $965 million.

—4. Recognition of the "dollar-gap" in planning for U.S. expenditures overseas.

—5. Extension of corporate and excise tax rates beyond their scheduled reduction or termination on July 1; provision of "equitable taxation" of cooperatives; temporarily raise the temporary debt limit of $293 billion, scheduled to expire June 30.

Eisenhower said: "This budget like each of the seven which I have previously sent to the Congress, reflects the conviction that military strength and domestic advancement must be based on a sound economy, and that fiscal integrity is essential to the responsible conduct of government affairs."

Eisenhower's Treasury Secretary, Robert B. Anderson, backed up his chief's assessment by predicting that although industrial production and employment declined in calendar 1960, the economy would "advance to markedly higher levels" this year and the budget was prepared accordingly.

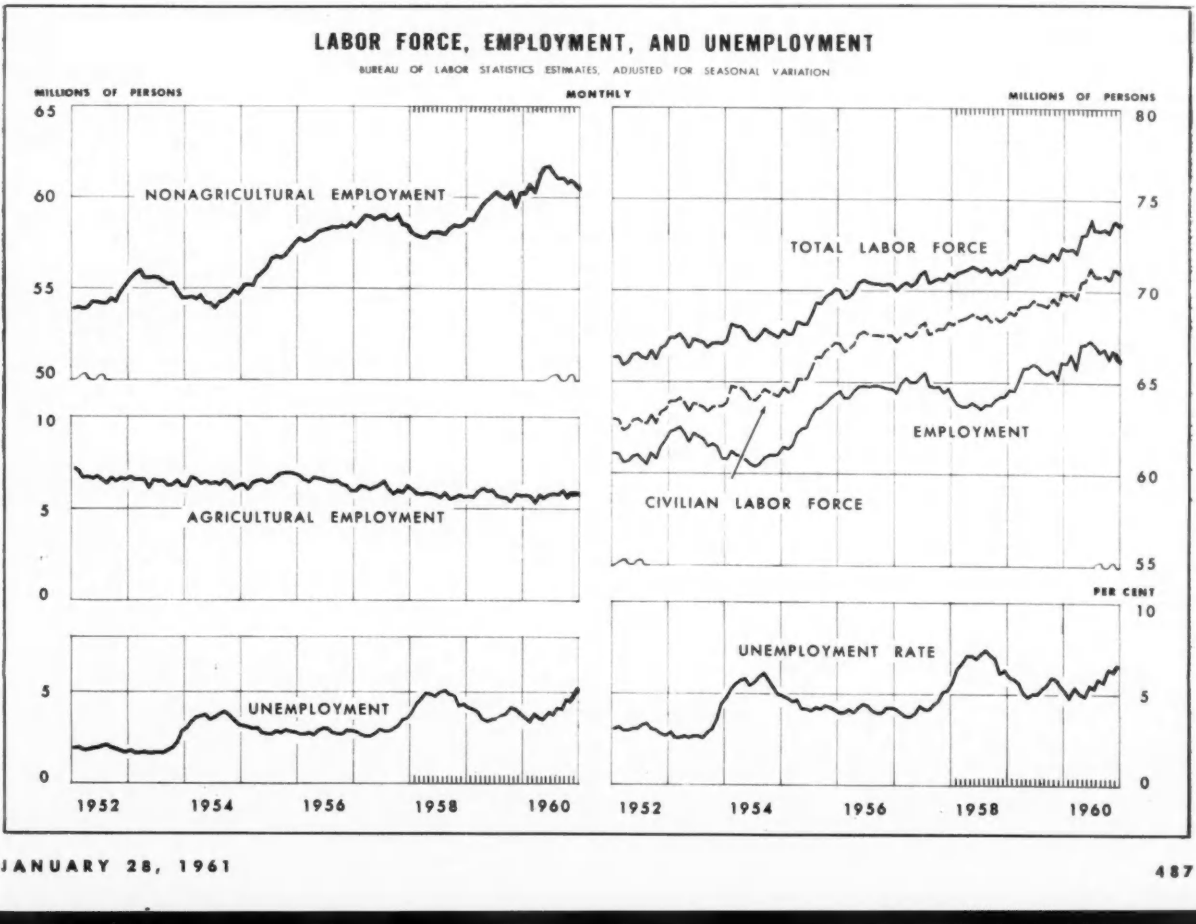
The new Secretary of Treasury, Republican Douglas Dillon, was silent, but it was known he favored more spending in some fields such as foreign aid than Eisenhower asked.

Democrats Generally Were Highly Critical of Eisenhower's Budget and His Economic Assessment

Clarence Cannon, Chairman of the House Appropriations Committee, said that all Eisenhower budgets, including this last one, were "singularly inept and inaccurate in their estimates of surplus and in the amounts they propose to Congress." He said Eisenhower was leaving the nation "the largest and most unmangeable debt any nation ever has known while receiving the largest revenues ever received by this or any nation." Cannon claimed the Eisenhower budget "violates every rule of prudence to hedge against deficits and to provide for unforeseen national emergencies."

Cannon's criticism of the Eisenhower budget was based on entirely different grounds than the complaints of Kennedy's economic advisers. This appeared to foreshadow some important differences between the White House and some Democratic members of Congress when the new Administration gets down to arguing specific budget amendments.

Eisenhower's record peacetime military budget of $42.9 billion, an increase of $1.4 billion as noted earlier, reflected pressures arising from the renewal of the "Cold War" in all its intensity following



Budget Receipts And Expenditures By Function

Description	In Millions of Dollars — Actual 1960	Estimate 1961	Estimate 1962
Budget Receipts			
Individual income taxes	40,715	43,300	45,500
Corporation income taxes	21,494	20,400	20,900
Excise taxes	9,137	9,322	9,725
Employment taxes	339	—	—
Estate and gift taxes	1,606	1,900	1,953
Customs	1,105	1,083	1,115
Miscellaneous receipts [1]	4,062	3,695	3,807
Subtotal	78,457	79,700	83,000
Deduct interfund transactions (included in both receipts and expenditures)	694	676	667
TOTAL BUDGET RECEIPTS	77,763	79,024	82,333
Budget Expenditures			
Major National Security	45,627	54,930	47,392
International Affairs and Finance	1,833	2,310	2,712
Labor and Welfare	4,419	4,483	4,759
Agriculture and Agric. Resources	4,838	4,936	5,101
Natural Resources	1,713	1,951	2,138
Commerce, Housing and Space Technology	2,782	3,784	3,371
General Government	1,695	1,982	2,071
Interest	9,266	8,993	8,593
Subtotal	77,233	79,621	81,532
Deduct interfund transactions (included in both receipts and expenditures)	694	676	667
TOTAL BUDGET EXPENDITURES	76,539	78,945	80,865
BUDGET SURPLUS (+) OR DEFICIT (—)	+1,224	+79	+1,468

1—Includes taxes not otherwise classified.

last May's Summit debacle in Paris.

● But the increase was considerably short of the $3 billion increase in defense spending which Kennedy has said is necessary if the United States is to be able to negotiate from a position of strength. **Among his first amendments to the Eisenhower budget there certainly will be some suggested upward revision in this category, but probably not the full amount recommended by his advisers.**

● Although Kennedy is not satisfied with the $42.9 billion defense budget, it has been exceeded only once since the end of World War Two. That was in 1953, at the height of the Korean War, when it reached $43.7 billion.

Here is the spending breakdown proposed by Eisenhower in the military part of the budget:

Army—$10,073,000,000, a $458 million increase over the current fiscal year; Navy—$12,078,000,000, an increase of $313 million; and Air Force—$19,344,-000,000, up $447 million. In addition, the office of Defense Secretary is budgeted for $1,415,000,000, an increase of $192 million over fiscal 1961.

● All three services believe they need greater increases and have submitted proposals to Kennedy for amendments.

● The budget calls for keeping 2,492,900 men in uniform, which is the present figure.

● Eisenhower earmarked almost $1 billion in fiscal 1962 for civilian space projects. This figure probably will be left unchanged by the Kennedy administration.

● The outgoing President set the Agriculture Department's budget at $5.8 billion, blaming "unrealistic" price support laws for the huge figure.

● He hammered at Congress for "lack of adequate modifications in the price-support law to make the programs conform to the increased efficiency and growing productive capacity of the agricultural industry."

The Kennedy Administration, no matter what it does about farm policy, can do nothing to alter the Agriculture Department budget for fiscal 1962 because of the time lag between enactment of any new legislation and its impact on the budget. If new legislation is enacted within the next few months, the change would not be reflected until the budget for fiscal 1963 is prepared a year hence.

● Eisenhower stood firm against any massive outlay of federal funds for classroom construction and teachers' salaries. He recommended only "modest increases" in the existing Federal programs of aid to education.

Here again the old and new administrations split, as they do on the question of medical care for the aged.

Kennedy has promised to sponsor a far more sweeping education aid program. His advisers have recommended a federal outlay of $2.3 billion a year on a broad program, including grants which would be used for classroom construction or teachers' salaries. This may be scaled down somewhat by Kennedy when he gets around to proposing his school program to Congress but he is certain to want far more than the modest Eisenhower program.

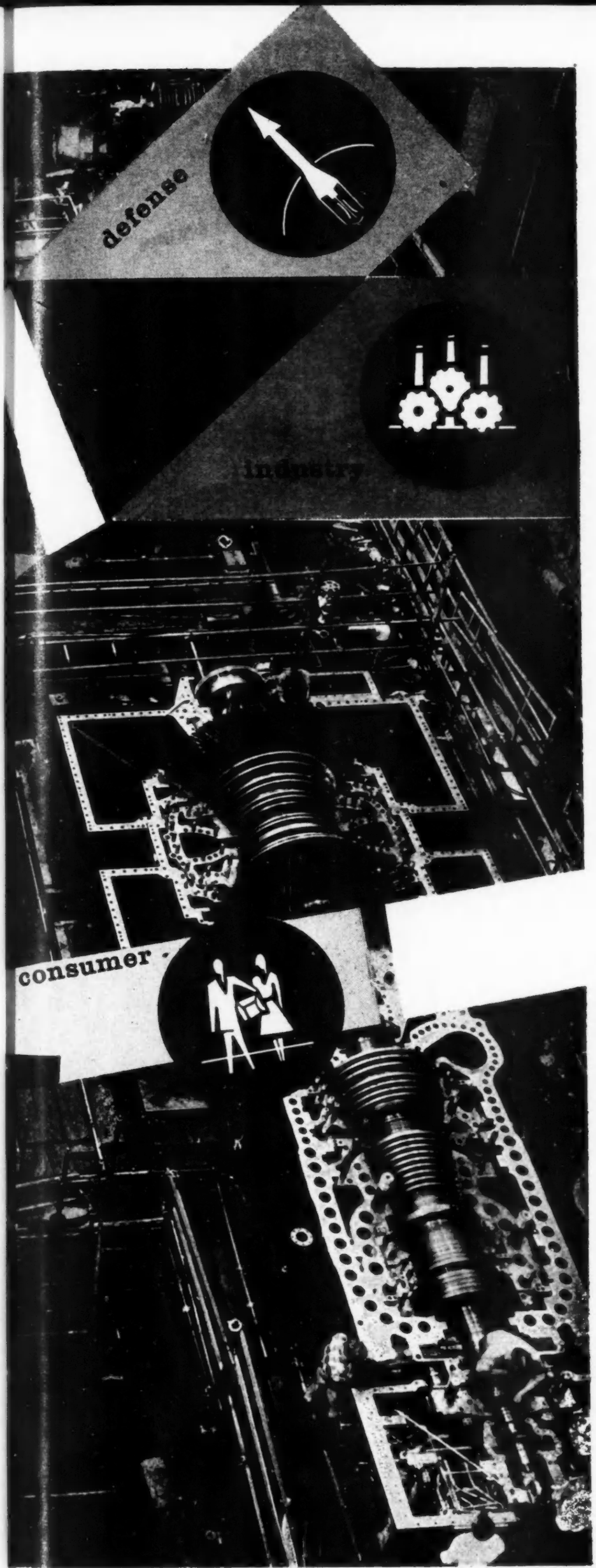
● Kennedy is expected to ask a boost in foreign aid spending considerably larger than Eisenhower. The outgoing President suggested $3,625,000,000 on this item this year. Dillon already has said the total should be around $5.5 billion.

In Conclusion

There is little need to analyze further the specific differences between Eisenhower and Kennedy on individual items of spending. It is obvious that the big and basic question concerns not so much the specific amounts in each category but the matter of who is right about the causes of the current economic stagnation and the methods needed to end it.

Eisenhower's Budget and Economic messages were predicated on a set of optimistic assumptions which Kennedy simply believes are unwarranted.

Unless there is a quick upturn in the various indices, Kennedy can be expected to move quickly to try to stimulate the economy by increased Federal spending and, if it appears necessary, by selective tax cuts. END



Part Two

1961 OUTLOOK VARIES FOR MAJOR INDUSTRIES

—*Which offer best prospects*
—*Which face problems*

By WARD GATES

IN Part I of this report, 1961 was described as an unexciting year, but certainly not as bad as the pessimists would have us believe. True, the private segment of the economy will be on the downgrade in the opening months, but offsetting grounds for encouragement are visible.

First, and foremost, consumer spending will remain high, although its composition will work hardships on many producers of consumer durable goods. Secondly, government spending on all levels will be higher, giving a shot in the arm to defense industries, construction and some producers of heavy equipment.

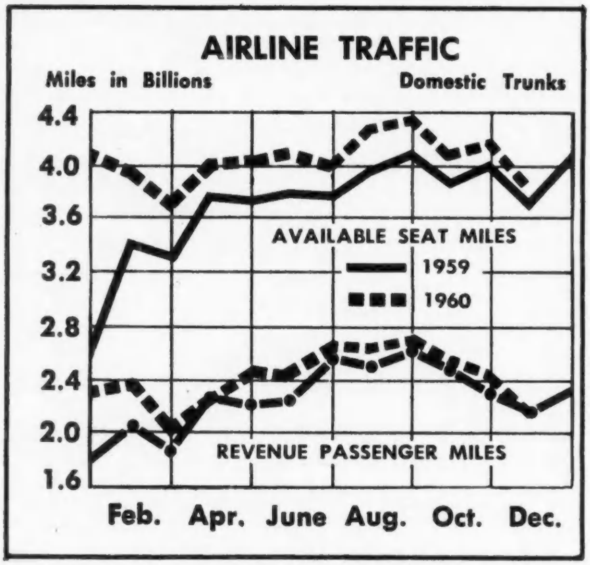
Two Vital Cornerstones of Recovery

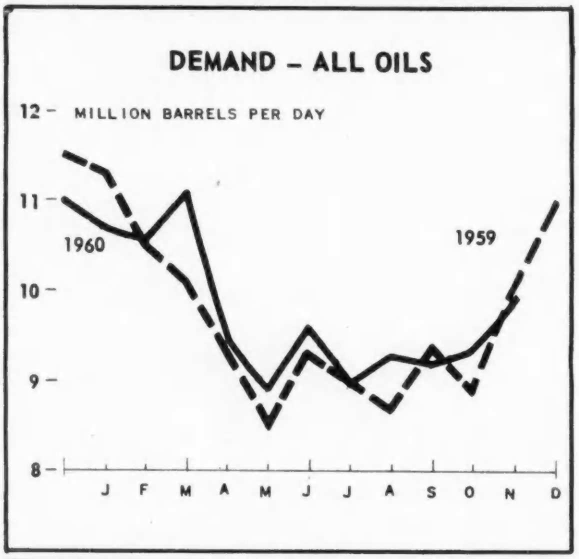
Perhaps most important, however, is the fact that several vital cornerstones of the economy are poised for recovery, if the proper stimulus should develop. The banks and the banking system are highly liquid and able to lend funds quickly for construction or inventory accumulation. Further inventories on all levels, except for new car stocks, have reached their peak and are on the way down. Although further inventory cutting will continue for some months at least, as soon as any real signs of a major business pick-up become evident, the scramble for inventories will supply renewed vigor to the economy.

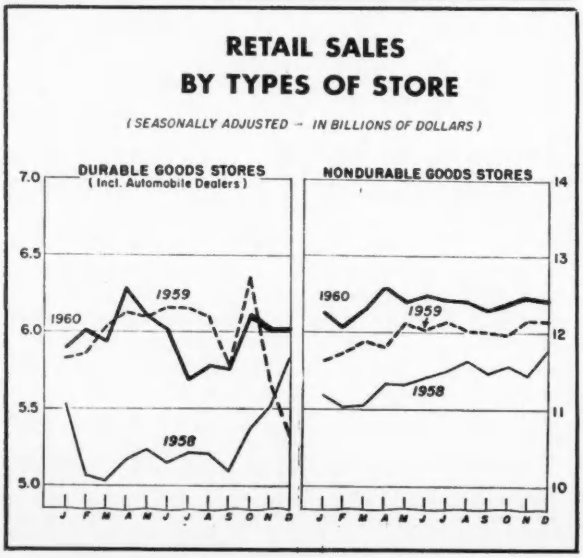
None of this, of course, *must* necessarily happen in 1961. But at least the stage is being set, while the economy wallows in the doldrums at a high plateau.

Aircrafts Look Better But Caution Must Be Maintained

The new surge in defense spending will mean happier days for the aircraft industry. What is particularly encouraging for the plane makers is that 1961 had already promised to be a better year.







Several major companies took substantial write-offs of developmental costs in 1960, paving the way for more profitable operations in 1961. Now, in addition, the promise of more business is highly stimulating.

The biggest bonanza dropped into the industry's lap was the reactivation of the B-70 bomber program, a project that will pump $1.5 billion into the aircraft industry's coffers over the next five years. Of more immediate interest, an expected $500 to $700 million of that total will flow in during 1961, to be divided up among a number of companies.

North American Aviation, the prime contractor, will get the biggest part of the initial funds, but scores of other companies including **General Dynamics, Boeing** and **Beech Aircraft** will also benefit.

All in all, sales should climb more than 5% in 1961, with a good chance that further increases could materialize if the new administration decides to accelerate the missile program. In any event, 1961 is bound to be a better sales year, and will witness good earnings recoveries for many companies.

Investors must still approach the aviation manufacturers with caution, however. The aircraft program is now on its last legs, and this has been the source of far greater profits than the missile program. Furthermore, technological advancement is now so rapid in the latter field that the military services have not been averse to cutting off huge programs even after millions of dollars have been sunk into them. Hence, the constant threat of cancellation continues to hang over most of the companies.

Airline Depreciation Problem Will Be Less Severe in 1961

The nation's airlines flew through rough weather in 1960, but in retrospect it was a year of tremendous progress. True, earnings declined substantially for most companies and one organization actually faced bankruptcy. Still, the year had its plus values which point to betterment in 1961 and the years ahead.

Most important, the big bet on jets paid off. The newer aircraft proved to be far more efficient than even their most ardent boosters expected. Thus, even though the old problems of many flights with a shortage of passengers persisted, a generous increase in earnings resulted from operations.

Secondly, the CAB has finally shown recognition of the industry's pernicious route structure, and appears about to approve a merger between **United Airlines** and **Capital.** This merger will save Capital from bankruptcy, but of greater importance for the industry as a whole is the implied admission that there must be route consolidation if the lines are to operate profitably and efficiently.

Further, the CAB granted a permanent 2.5% rate increase last July, and a temporary $1 per ticket surcharge that helped offset operating losses.

Despite these signs of betterment for the airlines, however, reported earnings were still severely depressed. The main reason was, of course, the heavy depreciation charges levied against the enormous capital outlays for jet aircraft. Most of these charges, to be sure, found their way into company coffers as increases in their cash positions despite the poor reported earnings.

Depreciation charges will again take a heavy toll against earnings in 1961. But this year the fare increase will be in effect all year. In addition, because of the increase in coach travel on the jets, the CAB has allowed the carriers to raise their rates on that class to within 25% of first class rates. This empowers the companies to raise coach rates as much as 17 percent.

Problems will still abound for the industry in 1961 . . . especially in overseas service where competition from foreign lines is severe. But the first steps toward solution of the industry's most serious ills appear to have been taken. Recovery may still be a few years away, but the overcast is beginning to lift.

Happy Days Coming for Farm Equipment

The farm equipment producers will probably provide one of the brighter spots in the 1961 business picture. Interestingly, this has often been the case during past business contractions, as well. The reason is that the fortunes of the plowshare makers are tied to farm income which often follows a different cycle than the general level of industrial activity.

Farm income already began to rise after mid-1960, recovering from a 15% slump the year before. It usually takes from 6 to 8 months for such betterment to translate itself into new orders for the equipment makers . . . a period which should strike early enough in 1961 to make for a good year.

The industry is also in better shape than ever before to benefit from increased business. Rigid cost controls have been widely instituted while automated assembly lines have been supplemented by modern methods of inventory control to bring about maximum efficiency.

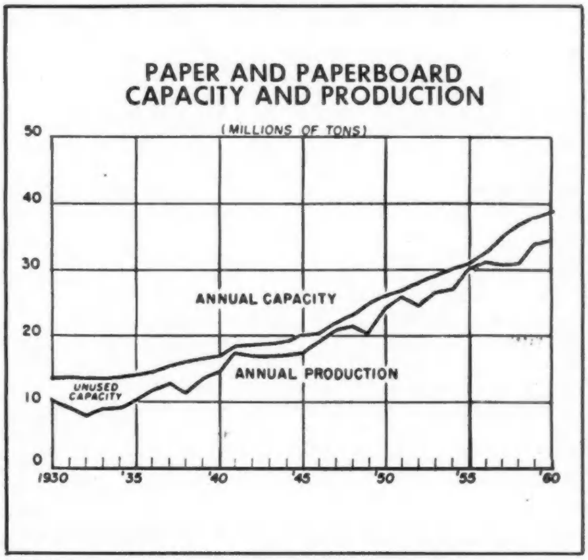
These accomplishments have already enhanced the companys' earning power, but 1961 will provide additional stimulants. The first of these is the likelyhood of across-the-board price increases. They were scheduled for 1960, but the market situation wasn't ripe enough to allow them. This year however, sales will be bolstered by heavy demand for new equipment both to increase capacity and for replacement. The latter reflects the extensive use farmers made of their equipment in harvesting the record crops last year. Those who can afford it will not risk another year with the same run-down machines.

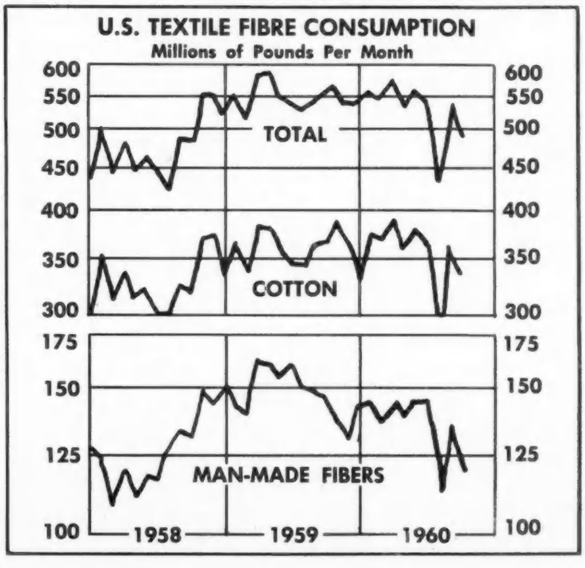
Over the longer range, American farm equipment companies are making substantial inroads abroad, and seem on the brink of a four or five year boom overseas if current trends persist. Add the growing foreign market to the continuing shift of domestic farm operation into large-scale, corporate farming, and the demand picture looks favorable in the period ahead.

For stockholders, all this points to happier days. New investors, however, are cautioned that many of the stocks are already amply discounting the better future described. Purchases in this group should accordingly be tied to the recommendations contained in our individual industry studies as they appear during the course of the year.

Contrast Between Domestic, International Oils

The petroleum industry faces a mixed outlook in 1961. Domestic producers will probably fare better than the international companies, but drawbacks





even in the situation at home will be troublesome.

On the favorable side, the combination of import-quotas and restricted production has finally had the sought-after effect of first stabilizing, and then raising, oil product prices. As a result profit margins for the refineries have recovered much of the ground lost previous to 1960. In addition, cold weather throughout much of the country has recently bolstered the price level for heating oils.

All this is to the good for oil companies and their investors, but on the negative side is the unhappy fact that no signs that the annual rate of increase in the use of petroleum products will recover its former 4% to 6% momentum are in sight. Nevertheless, this restrictive factor is not enough to offset the benefits cited, and earnings will be higher for many companies this year.

For shareholders willing to forego the exciting flurries that formerly characterized the industry, several good quality companies, offering both good yields and improved profit prospects, are still attractive for participation.

The international companies face a less certain new year outlook. Their political embroilment in many areas casts a pall over stock prices. Moreover, small countries with large oil reserves are constantly demanding greater participations in the profits of the major producers. In 1961, the increasingly general 60-40 split with many Middle Eastern countries will mean a sharp reduction in earnings from that part of the world. The significance of this reduction becomes obvious when it is realized that Middle Eastern operations account for between 30% and 50% of the earnings of many of the principal international companies.

Another depressant on the international oil scene is simple overcapacity. The domestic price has finally been protected by quotas, but in other parts of the world the growth in demand for petroleum is still too slow to absorb the tremendous outpouring from the Middle Eastern sands. Hence, international prices will probably be weaker than in 1960.

Add to these problems the constant threat of Russian cost-cutting and the international oils present an unsavory picture. A few companies, however, may outperform the others and some appear sufficiently depressed to discount the international troubles described so that careful purchases may be justified.

Metals Described in Feature Story

With few exceptions, the mining companies will have their share of domestic and international difficulties to deal with in 1961. For full details, and an appraisal of the prospects for the industry, see the special story in this issue of the Magazine.

Research, Preference for Rentals, Will Cause Continuing Capital Stringency for Business Machines

1960 was another big sales year for the business machine makers, but it was also another year of skimpy profits. Once again, as so often in the past, only **IBM** was able to reap real profits from the market.

In 1961, sales will continue to spurt, as industry both at home and abroad moves further and further along the trail to full automation. But the increased revenues will only partly solve the industry's problems. On the healthy side is the likelihood that profit margins will finally begin to grow for many of the companies, as production is becoming large enough for many types of equipment to allow manufacturing economies. Thus, research, and other expenses can be spread out over a larger output.

As a result, the combination of high backlogs and more efficient production should raise profit margins substantially in the year ahead. But a dark side to the picture still persists. Research and development costs are rising so rapidly that even higher profits will not solve the financial needs of many of the companies. The financial burden is also aggravated by the growing tendency toward rental of equipment, forcing the manufacturer to wait longer for his capital outlays to be recouped. Thus, many companies can be expected to resort to public financing in the year ahead, a process which will inevitably lead to some equity dilution.

As investments, the business machine stocks seem to have been either highly rewarding or miserably disappointing, depending on which issue was purchased. The same mixed trend is likely to prevail during 1961.

Ethical Drug Margins Depressed

The drug industry, reeling under the combined impact of Congressional investigations and lower profit margins, put in a hard year in 1960. A few real bright spots could, however, be discerned. In general, the proprietary producer, specializing in patent medicines, enjoyed a good year, and a few others, such as **Mead Johnson** and **Richardson-Merrill** (formerly Vick Chemical) gained from the success of particular products.

In the year ahead the ethical drug producers will probably continue to have a hard time. A new ruling by the Federal government will force these companies to be more precise and exacting in their advertising to doctors, raising their promotional costs substantially. Further, the government's own enormous purcases of drugs will be under the watchful eye of a Congressional committee.

Under the impact of lower margins, price cutting has entered the field, depressing profit margins. This situation may become still worse in 1961. In the meantime, already heavy expenses will continue to rise.

Research costs have always been high, but at the moment the industry is striving harder than ever to justify its pricing practices by coming up with sensational drugs. The hope is that an effective cure for cancer, arthritis or some of the more pernicious diseases of the aged will stamp out the ill-will about prices and policies. Such costs will, of course cut into 1961 earnings, while success cannot be assured.

Several important new drugs are expected to be released in 1961, and these should prove highly profitable to the companies responsible. For the others, however, 1961 will be a trying year. Moreover, few signs suggest that profit margins will return to their former high levels for a long time, if ever.

The proprietary producers, of course, enjoy a steady, growing demand for their products. The stocks have reflected this outlook by their outstanding market performances in 1960. If the general market should *(Please turn to page 523)*

Timely and Informative . . .

BONDS AS INVESTMENTS FOR 1961

By E. C. McCORD

- ► **Status of bonds today and looking to the year ahead**
- ► **What are the possibilities for inflation — its effect on bonds generally**
- ► **The various classes of bonds — which are in the best position today — what of the future**

A GENERATION ago investing meant bonds; stocks were regarded as highly speculative commitments and the adviser who recommended a 25% proportion in equities was rash and daring. For some years past this picture has been reversed; stocks are now the vogue and bonds look dull and uninteresting. This change has been largely due to the emergence of inflation as a permanent factor in our economy, and its erosion of the purchasing power provided by a bond's fixed dollar income. Just the same, the swing toward stocks and away from bonds may have carried to an extreme; at least, we are now in one of those infrequent periods when bond yields exceed stock yields. At the same time, certain signs indicate that inflation is likely to be temporarily checked. Thus, good bonds now look more attractive than many stocks, which are selling at prices that seem to be discounting earnings many years into the future.

Types of Bonds Available

Essentially, bond investments fall into three principal groups: U.S. Governments; obligations of municipalities, states or other governmental subdivisions; and corporates. Bonds may also be classified according to maturity — short, medium or long-term; and again by quality (AAA, B, etc.) following the ratings assigned by several statistical

Monthly Fluctuations In Average Yields On High Grade Corporate Bonds

(Yields to maturity, in percent)

	Jan.	Febr.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1960	4.90	4.85	4.78	4.77	4.85	4.77	4.72	4.63	4.88	4.68	4.72	—	4.74
1959	4.15	4.15	4.14	4.22	4.39	4.46	4.45	4.44	4.54	4.52	4.55	4.59	4.37
1958	3.58	3.60	3.64	3.63	3.60	3.61	3.70	3.86	4.08	4.11	4.09	4.10	3.79
1957	3.80	3.72	3.69	3.71	3.77	3.90	4.01	4.12	4.16	4.13	4.13	3.82	3.90
1956	3.11	3.08	3.11	3.22	3.27	3.28	3.29	3.42	3.59	3.61	3.74	3.82	3.35
1955	2.89	2.95	2.98	2.98	3.01	3.02	3.05	3.12	3.11	3.09	3.08	3.16	3.03
1954	3.02	2.90	2.81	2.82	2.85	2.81	2.86	2.83	2.85	2.84	2.86	2.88	2.85

organizations. Security—whether mortgage bonds or unsecured debentures—and convertibility may also provide bases for classification. Numerous other special provisions may exist.

U. S. Government bonds, by definition, carry the highest quality rating, but many municipals and corporates are just as secure for all practical purposes. As the bulk of the federal debt consists of very short-term issues held largely by institutions, regular bond buyers, mostly insurance companies and similar institutions, must look chiefly for corporate offerings. In order to lengthen maturities and eliminate the problems implicit in constant rollover, the Treasury has recently shown a tendency to "sweeten" its issues by higher yields or other attractive features but the statutory interest ceiling has really prevented it from meeting the market. The best method for increasing the attractiveness of government bonds would be, of course, to reduce the threat of inflation, but apparently this is wishful thinking.

Municipal and state bonds include a wide range of obligations of cities, towns, counties, school, sewer and other special districts, as well as those of authorities and agencies dependent upon revenues collected rather than any specific guaranty. The range of yield is relatively wide, reflecting differences in credit ratings of the various governmental jurisdictions or the risks involved in the operation of bridges water systems and the like. **Where tax exemption is important, as for investors in the top brackets, these obligations are most attractive. They have, however, many disadvantages, including very limited marketability. Some of Kennedy's advisers, turning in their first reports, have also advised the abolition, among other tax loopholes, of the exemption on municipal bonds. The states and cities would naturally raise the most vociferous protest against any such proposal, but as taxes are continuing to climb all around it will be constantly harder to defend this privilege.**

Why Buy Bonds?

But as the law stands now, municipal bonds do have a very strong advantage for the wealthy. There is another type of investor for whom bonds of any kind are attractive — the elderly. These senior investors need current income more often than future appreciation, while the loss of purchasing power in a bond's fixed income and future repayment of principal is of less consequence to them. Beyond such individuals, insurance companies, whose own obligations are strictly in dollars, can protect themselves best with large bondholdings.

● The current differential between the return available on bonds and stocks may be illustrated specifically by the recently marketed **Iowa Power & Light** 1st 4⅝s. On the same day that these bonds were offered by the investment bankers at a price to yield 4.60%, the common stock of the same company was selling to yield a less attractive 4%. Actually, however, this spread was smaller than average, as utility stock yields are typically generous. The more general spread between currently available bond yields and average stock yields is about 1⅓ percentage points; specifically, high quality bonds can be purchased to yield 4.65% vs. about 3⅓% on the Dow Jones Industrial stocks.

But Investors Still Hesitate

Given this significant difference in yield, why do investors still prefer to buy volatile common stocks on an income basis substantially lower than that available on the most secure mortgage bonds? **Apparently, most of them believe that inflation is more likely to take place than deflation or even a return of stable purchasing power. In other words, investors are willing to pay more for a claim upon unrestricted future potential dividends than larger immediate but limited interest income.**

Monthly Fluctuations In Average Yields On Representative Stocks

	Jan.	Febr.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1960	3.25	3.39	3.52	3.46	3.52	3.40	3.49	3.41	3.56	3.59	3.48	—	3.72
1959	3.12	3.22	3.13	3.17	3.08	3.10	3.00	3.02	3.12	3.13	3.11	3.04	3.09
1958	4.36	4.37	4.27	4.23	4.15	3.98	3.89	3.67	3.59	3.40	3.31	3.22	3.84
1957	4.17	4.42	4 34	4.22	4.01	3.85	3.70	3.94	4.08	4.36	4.50	4.49	4.16
1956	4.14	4.13	3.85	3.81	3.95	3.77	3.78	3.90	3.92	3.95	4.11	4.10	3.93
1955	4.31	4.25	4.27	4.11	4.15	3.91	3.58	3.74	3.58	3.79	3.94	4.03	3.95
1954	5.70	5.65	5.48	5.21	5.00	4.96	4.73	4.59	4.47	4.31	4.43	4.37	4.91

This attitude is reasonable enough; it has paid stock investors handsomely for several decades past while stodgy bondholders were left with seriously depreciated dollars. Just the same, conditions could change. ● We have cited much evidence in the Magazine to show that the great post-war boom is at an end, that many markets are now facing saturation, and that excess capacity abounds. ● Stock prices are high in terms of earnings by all past standards—and only the expectation of sharply increased earnings in the early future can justify their present level. ● It is true that the tenor of all the economic reports and recommendations now being handed in to President Kennedy is distinctly inflationary—but it may not be wise for the careful investor to put all his eggs in this basket.

To be sure, interest in bonds is not entirely lacking—when the price is right. A concrete indication that a high yield on top grade bonds has a strong appeal was provided by the tremendous reception accorded the "Magic 5's", due in 1963, offered by the Treasury just over a year ago. This one offering by itself swung the spotlight back from stocks to fixed income securities, at least briefly, as a desirable investment for individuals as well as institutions.

Influation vs. Deflation

A factor of key importance to bondholders today is the business outlook. Let's look a little more closely at the conflicting tides of inflation and deflation.

Prophesies are to be heard on every side at this beginning-of-the year period, and the nearly unanimous consensus of all of them is that the present recession will continue until around mid-1961, after which recovery will set in. While these predictions may be true, they may also reflect hopes more than judgment. In any case, their very unanimity creates some element of doubt.

● One constructive development that is generally looked for is a turn in **inventory liquidation.** It is already understood that the rapid liquidation occuring early in 1960 moderated in the final quarter of the year, and termination of this trend and the beginning of a healthy accumulation is predicted during the first half of the present year. In a remark typical of other industry leaders, Chairman Blough of United States Steel recently stated that steel inventories are as low as they can be expected to go.

● **Nevertheless, it cannot be taken for granted that a change to inventory accumulation, especially in industries where current capacity is so much in excess of imediate needs, will take place as long as a general feeling of uncertainty persists. It seems possible that, by the 1961 year-end, manufacturing inventories could even be below the November, 1960, figure most recently reported by the Commerce Department.**

Another crucial area in the business outlook is plant and **equipment expenditures.** Outlays of this character for 1960 will apparently approximate $35.5 billion. In the forthcoming year, while the communications industry gives promise of maintaining a high rate of construction, a number of other utilities are stretching out their previously announced plans by a year or so and railroads are considered definite candidates for cutbacks. Housing does not look encouraging, although various governmental schemes to beef it up will naturally be proposed, As for general manufacturing, it is hard to make an overall forecast, but the obvious overcapacity in conjunction with the present reduced profit margin suggest that construction will not be pushed. **All in all, it would not be surprising to see construction expenditures drop a little below last year's level.**

Diversified List Of Bonds

Company and Issue	Price	% Yield	Times Interest Earned	% of Gross Rev. Remaining
FIRST MORTGAGE BONDS				
Baltimore & Ohio 1st Consol. 4/1980	75	6.25	1.3	6.5
Milwaukee Gas Light 1st 5⅝/1985	99½	5.65	3.22	9.9
Missouri Pacific 1st 4¼/1990	71	6.48	2.65	8.2
Texas Eastern Transmiss. 1st 5/1981	100	5.00	2.21	9.3
DEBENTURES AND INCOME BONDS				
Amer. Brake Shoe Deb. 4½/1982	93	4.90	7.4	N.A.
Amer. & Foreign Power Deb. 4.8/1987	57¼	8.8	1.77	3.3
Minn. St. Paul & S. Ste. Marie Income A" 4½/1971	74	8.3	1.91	3.0
Savannah Elec. Power Deb. 5¼/1985	101	5.14	2.82	15.0
United Gas Corp. Deb. 5⅛/1980	101½	4.90	2.86	7.4
CONVERTIBLE BONDS				
Carrier Corp. Conv. Sub. Deb. 4⅛/1982	96	4.45	3.22	N.A.
Chemetron Corp. Conv. Deb. 5⅛/1977	103½	4.82	3.08	N.A.
Dayco Corp. Conv. Sub. Deb. 5¼/1972	88	6.50	2.86	N.A.
MUNICIPAL BONDS				
Chesapeake Bay Bridge 5¾/2000	45½	6.0	—	—
Mackinac Bridge 5¼/1994	103¾	5.0	1.0	—

Can The Government Control Confidence?

Some confirmed stockbuyers will counter the suggestion just made with the retort that the government cannot and will not allow any prolongation of the present recession. Certainly, the new administration will do everything possible to bring about prompt recovery. A line of action has already been suggested by the Samuelson report. Increased urban renewal programs, public works projects, greater defense expenditures, enlarged federal funds for school construction, more liberal unemployment benefits, have all been recommended as devices for correcting the pronounced starboard list that has developed in the ship of state. **But it is far from certain that politically inspired measures such as these will have the desired effect upon the confidence factor, which will ultimately determine the level both of business outlays and of capital expenditures** *(Please turn to page 527)*

INSIDE WASHINGTON

BY "VERITAS"

INTERNATIONAL information services of this country notably U. S. Information Agency (USIA) and its radio arm, "Voice of America"—are in bad shape, despite President Eisenhower's eight-year efforts to bring them to a state of effectiveness in the running propaganda battle with the Reds. Most of the blame can be laid upon the door step of an opposition Congress which annually slashed budget requests for proper funds to wage an effective ideological war. A glaring deficiency of USIA forces—as well as those of the State Department—has been that of language. We simply have not properly trained our overseas personnel in the languages of the nations to which they are assigned, whereas "missionaries" from the Kremlin have had, in addition to thorough linguistic training, detailed knowledge of the habits, customs, history and traditions of the countries to which they were sent. It adds up to the necessity for a government Foreign Service Academy patterned after those of the Armed Forces.

WASHINGTON SEES:

Frustration confronts the "New Frontiers" program of President John F. Kennedy. The frustration will not be complete, but the program will not achieve the height of fiscal irresponsibility proposed by the Democratic platform written in Los Angeles last July. Nor will Mr. Kennedy's program "breeze through" Congress as did the New Deal program of the late Franklin D. Roosevelt in "the first 100 days" of 1933.

Confronted with a narrowly balanced budget, predicated upon postal rate and motor fuels tax hikes, as well as the menacing gold shortage, the 87th Congress will think long and hard before authorizing or appropriating for measures that would contribute to inflation through deficit financing, or demand general tax increases.

Faced with financial "facts of life," the new President will have to content himself with a Congress that will "go along" with only those liberal programs possible of financing over a term of years. Among these are long-term aid to so-called economically depressed areas, liberalization of a low-cost housing program, and slightly upped Social Security taxes to finance **restricted** medical and nursing assistance to the aged.

Basically, the conservative elements of Congress are intact, in sufficient strength to curb any "crash" spending program the Administration may have in mind.

CONSERVATIVE forces of Congress seem to have sufficient control to protect the taxpayers against wasteful expenditures in support of Socialistic schemes to boost the national economy through "pump priming" moves of an inflationary nature. First sign came when Senate "liberals" failed in their efforts to bring about a show-down vote on modifying Senate Rule XXII so that filibusters (unlimited debate) may be halted through invocation of cloture by a three-fifths vote of Senators present. With Vice President Lyndon B. Johnson presiding over Senate deliberations, he will be in a position to make rulings that will be calculated more or less to preserve the *status quo.*

BUDGET—fiscal 1962, that is, poses real problems for the new Administration. It carries an "iffy" surplus of $1.4 billion, most of it dependent upon postal rate hikes and a July 1 extension of the "temporary" one cent increase in gasoline and motor fuels levies. A budget of fiscal responsibility, the new Administration is confronted with the choice of further deficit financing or increased corporate and individual income taxes. It is doubtful that Congress will accede to any of the three. It is true that a Democratic majority exists in both Houses of Congress, that we have a new President of the same Party, but even the new President's own Party is aware that he is a "minority" choice, that basically the taxpayers are more interested in preservation of the dollar's integrity than in plans to hike Federal taxes or increase inflation.

As We Go To Press

Automation Adds to Farm Surplus and Problems of Unemployment. It hasn't come into the open yet, but Department of Agriculture and the Department of Labor are disturbed by new machinery that will produce greater price supported crops with fewer manual farm laborers. For years, wheat and other cereal grain crops — rice, oats, rye, etc. — have been reaped, threshed and stacked in the field by machinery. There has been considerable progress in mechanical picking of cotton. Around the corner now are machines to eliminate most of the hand labor of cotton harvesting and the gathering of tobacco leaf. Perfection of the machines, now expected within two years, will take no less than 1.2 million workers off U. S. farms, thus dumping them on relief rolls or sending them to industrial centers to seek other employment.

Farm Cooperatives Face Capital Shortage. The purchasing-marketing farm cooperatives (not electrical), all of them income tax-exempt, need more risk capital for expansion — even to maintain present positions in the business picture. Federal banks for cooperatives, easy source of expansion funds, are not only tightening up, but have laid down the dictum that farmers themselves must put up more capital to finance their off-the-farm businesses. In brief, the farmers are now confronted with the proposition that basic equity capital must be provided by the farmers, owners and patrons of the co-ops. No pertinent legislation pends at the moment, but the co-ops are now "in hock" to Uncle Sam for around $500 million. Interest payments are current, but in many instances principal payments are in arrears.

Broadcasters To Fight For Rights Of News Coverage; Live, That Is. Presently barred from live coverage of events on House side of Capitol Hill, the radio-television networks ready an intensive campaign to install TV cameras and radio microphones for direct transmission of House Committee proceedings of wide public interest, as is now allowed by Senate. House has no rule on the matter and, in absence of any specific rule, decision of the Speaker becomes the rule. Speaker Rayburn has long barred such coverage, but a House majority could set his ukase aside. And this is exactly what the networks are vigorously pressing for —behind the scenes, of course—progress is being made. Next step in the broadcasters' plan is direct appeal to the public. Resort to the Courts under press freedom clause of First Amendment to the Constitution will not be undertaken. Since both Houses of Congress can make their own rules without interference from the Judicial Branch of government, Court action by the broadcasters could result in cancellation of all press privileges now extended by the Congress. This is known to the air waves news media who rely mainly upon their own direct lobbying efforts and appeal to the public

Cost Of Living Index Expected To Decline Later This Year. This is the fond expectation of career experts in the Bureau of Labor Statistics and the Department of Agriculture. The optimism is based, primarily, on reliable indications of all-time high production of the livestock, meat and poultry industries over the next 12 months with consequently lowered prices in the market place—and meat staples play a major role in the living cost index. Added is fact that livestock and poultry do not have Federally-guaranteed price supports as do wheat, corn, etc.

Labor Supports Inflation, Ducks Changes In Taft-Hartley And Landrum-Griffin Acts. Reported here some weeks ago, organized Labor will not press for amendments or softening of Taft-Hartley and Landrum-Griffin Labor measures (primarily because of popular public support and narrow Kennedy margin of victory). Instead, the AFL-CIO moguls will press a Socialistic program, highly inflationary in nature. The finalized labor legislative program calls for: Executive authority to authorize tax cuts in areas of chronic unemployment; $200 million a month increase in unemployment insurance, even to those now uninsured; immediate 10%

increase in Social Security benefits, to cost around $100 million per month; Federal grants of $300 million for state and local public works projects; liberal tax relief for small business; lower mortgage rates for Veterans Administration aand Federal Housing Administration home construction; faster placement of government contracts, especially in areas of "chronic" unemployment, regardless of excess cost to government and, an overhaul of Federal Reserve Board policy for purchase of securities of varying maturities. Adoption of the whole program—all doubtful except increase in Social Security payments—could hit the Eisenhower final budget for close to $4 billion. Elsewhere on the labor front, look for AFL-CIO to "prove" that labor is less than 4% of cost of production of a new automobile or truck.

Private Insurance Of Bank Deposits May Get Congressional Security. Too many savings and loan institutions are resorting to private underwriters—in lieu of Federal insurance bodies—to guarantee safety of deposits. This is opinion of a ranking Member of a Capitol Hill Committee, who asserts there may be a real danger to depositors because private underwriters "do not maintain the rigid safety requirements demanded by the Federal deposit guarantee organizations." He also said that this lack of supervision enables the privately insured associations to "compete unfairly with the government insured institutions." In the meanwhile, the Maryland legislature prepares legislation that would curb private guarantee of savings and loan deposits.

Alleged Russo-U. S. "Missile Gap" Dispute Rages Back-Stage. Smoldering for some time, the dispute got off to a fresh and violent start when President Eisenhower, in his State of the Union message, indicated that the gap was as imaginary as the alleged bomber gap of some years ago. Conflicting intelligence reports have it (1) that no gap exists, and (2) that the Russians are still far out in front. Meanwhile, the Armed Forces ,among themselves) and the National Space and Aeronautics Administration (NSAA) are fighting one another for overall control of our missile and space programs. The confusion and feuding has reached serious proportions which demand a clean-up, either by the new Administration, the Congress or both.

Nixon Definitely To Lead G. O. P. In Coming Four Years. Although Mr. Eisenhower continues titular head of his Party, it is a certainty that he will stand aside in favor of the younger, more vigorous man who was the Vice President for two terms. Mr. Nixon thus far has not been very communicative on the subject, but figures close to him insist that he will, "at the proper time," assert his leadership and declare he will be "decidedly" active during the Congressional campaigns two years hence, adding that he is a "sure bet" for the 1964 nomination for the Presidency. They discount as "negligible" any influence by New York's able Governor Nelson Rockefeller "unless he decides to adhere to policies as may be laid down by Nixon."

Major Crime Continues Upward Spiral. Federal Bureau of Investigation's annual crime report, due for Mid-March issue, is certain to reveal a near-alarming increase of major crimes, murder, robbery, etc., with considerable increase in embezzlement and defalcation on the part of persons in public and private positions of trust. In the meanwhile, those companies writing surety bonds are tightening up their investigative procedures, both at time of employment and, in instances of very high surety guarantees, continuing observation of persons guaranteed. Advances in premium rates for this type of insurance conceivably could be advanced within the current year.

Flashes: Canada's continued trade with Cuba irked the old Administration, has the new President unhappy. Meanwhile, Cuba's next sugar crop will be short—too many sugar field workers were used to "defend" the island republic against U. S. "invasion" at very time they were needed in the cane fields . . . Libral forces in House will try to tighten Natural Gas Act to favor bituminous coal; can't get far with LBJ and Speaker Rayburn in opposition . . . Crude oil import quotas face cut by new Administration; a pay-off to Texas for its support of JFK who, in turn, will boost residual imports for his native New England.

IS KHRUSHCHEV'S DISARMAMENT SUGGESTION MERELY A BLUFF?

By NORMAN A. BAILEY

—Why Russian economy cannot afford it under the realities of Soviet industrialization

ONE of the great desires of mankind, and one which has been heartbreakingly disappointed time after time, is the desire for general disarmament, which would allow vast amounts of labor and capital to be channeled into productive investments in industry, communications, education, health, and aid to the underdeveloped world.

If these hopes have been disappointed, it is not because of any lack of disarmament conferences, congresses and even agreements. The pressure of public opinion is strong enough to cause the frequent calling of such conferences, but they have rarely resulted in any concrete reduction in armaments, and even limitation has taken place only as a measure imposed upon weaker powers by stronger, such as the limits put upon Japanese naval power during the nineteen twenties.

The country which has most often and most blatantly played upon the hopes and fears of the people of the world, in the matter of disarmament, is beyond doubt the Soviet Union. Russia has been making propaganda gestures towards total and unlimited disarmament since Litvinov's famous speech at the World Disarmament Conference of 1932. Recently Premier Krushchev has reiterated these offers at the United Nations on several occasions.

Immediate and total disarmament is a slogan designed to appeal both to these people living in industrialized countries anxious to lighten the burden of taxation and miltary service and to people

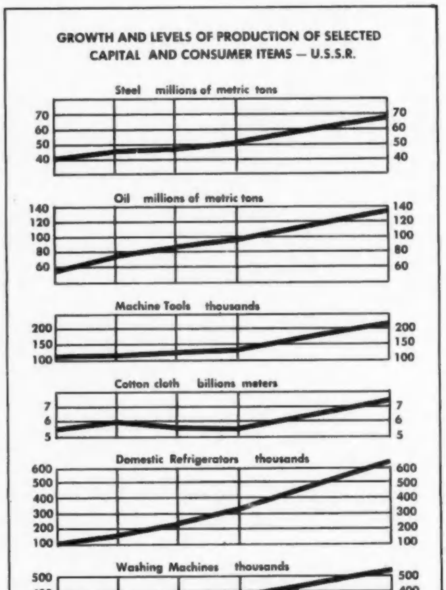
in the underdeveloped countries who believe that an end to the arms race would result in such an oversupply ofcapital on the part of the advanced nations that they would have little choice but to invest part of that surplus in the rest of the world.

How serious is the Soviet Union in making these efforts? Is it merely blatant propaganda, or is there perhaps some kernal of serious intent hidden behind the verbiage, motivated perhaps by a realization of the immensely destructive nature of modern weapons?

Is Disarmament a Possibility—Realistically Speaking?

There can be no doubt that genuine disarmament is an important goal, but it is equally important to appraise disarmament proposals realistically, and to deal with them as they are, not as we might wish they were. In speaking of disarmament, the discussion which follows does not include the ending of nuclear testing. That move, if taken, would be neither disarmament nor limitation of arms, since all parties would still be free to manufacture more bombs and tactical nuclear weapons of the types developed up to the present.

The drive for an end to nuclear testing is due to two causes; the danger to health inherent in fallout, andthe desire to keep the "nuclear club" as small as possible. The club has already been widened to include France, and there are reports that Israel may be eight to ten years away from the manufacture of a bomb. The possible results of widespread diffusion of nuclear technology are such as to make the limitation mentioned above highly desirable, and indeed, concerted action among the atomic powers might well have prevented the bomb testing which France is conducting in the Sahara at present.



GROWTH AND LEVELS OF PRODUCTION OF SELECTED CAPITAL AND CONSUMER ITEMS — U.S.S.R.

Dislocation In Soviet Economy Under Disarmament

One of the most important factors to be taken into consideration in assessing the nature of Soviet disarmament proposals is the effect that disarmament would have on the Soviet economy. Even in this country disarmament would occasion a very great dislocation of the industrial network with resulting waste, unemployment and financial disruption. However, the United States is geared for the large-scale production of consumer goods, and the changeover of the industrial facilities now producing war material to the production of still more consumer goods for the internal market or of a capital goods for export, though not easy, would be well within the capabilities of the economy to handle.

The situation in Russia, however, is very difficult. Russian industry is geared to the manufacture of capital goods and military hardware. Consumer goods have had, and still have, a very minor place in the economy as a whole. It must be kept in mind that the actual military items themselves are only a part of the story—much of the machinery, power, steel, and so forth, that is produced in Russia is utilized for military purposes, directly or indirectly.

Even gradual and controlled disarmament would play havoc with the Russian economic system. Complete and immediate disarmament would be disastrous. Millions of Soviet workers would be thrown out of work, thousands of factories would be idle, transportation would be disrupted, with some routes abandoned and others overloaded, millions more soldiers, sailors and airmen would be thrown on the labor market, which would at the same time be contracting drastically. In short, chaos!

Russian Economy at Time of Revolution

It is a little known fact that on the eve of the Bolshevik revolution Russia was the fifth-ranking industrial power in the world. This rank was not commensurate with its potentialities, of course, as the Soviets were to demonstrate later, but neither was pre-revolutionary industrial development in Russia negligible.

The Bolshevik revolution occurred in November of 1917, and three and one-half years later civil war and the vigorous application of Marxist theories had ruined the Russian industrial machine. Production had fallen to one-fifth of the totals in 1914; elements of the population which had originally supported the regime began to revolt; bands of starving children roamed the countryside, practicing banditry and terrorizing travellers.

It was in March of 1921 that Lenin introduced the famous New Economic Policy, or NEP. This was nothing more nor less than calling upon the capitalist system, free enterprise and profit motivation, to make up the damage that Bolshevism had done! Nor was Lenin mistaken. By 1928 the economy was back at pre-war levels. The so-called "rightest" groups within the communist party, led by Bukharin, wished to continue the NEP policy in its major aspects, the "leftists", led by Trotsky, wanted forced collectivization and rapid industrialization.

By pretending to side with the rightiests against Trotsky and his followers, and then turning on his erst-while allies, Stalin seized power and plunged Russia into a blood-bath such as even that unhappy country had never experienced before. The well-known authority on Soviet economic history, Robert W. Campbell states:

"In 1929 Stalin ceased talking about the virtues of voluntary cooperation in collectivizing agriculture and the technical efficiency of collectives and instituted instead a drive to force the peas-

ants into collectives so that the supplies required for industrialization could be extracted efficiently. This was to be a war which would destroy once and for all the peasantry's ability to interfere with industrialization. . . The peasants were forced into collective farms willy-nilly; those who opposed the collectives were killed or deported. Altogether some 5 million persons were deported or shot. Collectivization was the most intensive experiment in repression and terror that the regime had ever engaged in up to that point."

From that time on the policy of the Soviet government has been the same—forced industrialization, as rapid as possible. The autonomous power of the labor unions was smashed, workers were prevented from changing jobs without the permission of factory managers, hours were long and pay rates miserable. In agriculture the peasants were completely cowed, and the state took what it considered necessary, even if it meant starvation for the peasants. Consumer goods were scarce and of shoddy quality.

After Stalin

Since the death of Stalin there have been some changes. Conditions of work have been improved and the workers given greater voluntary mobility. Labor unions were told to take better care of the wants of their members. Some of the forced laborers in prison camps were released. The apostle of greater consideration for the consumer, however, Georgi Malenkov, was purged, and although some improvement has been seen in this sector, it is of negligible importance. **Khrushchev, on the other hand has been concentrating on the improvement of agriculture, through the development of better methods and the opening up of new territories. This policy has been only partially successful, and the major effort of the Soviet state is still bent towards the ever-greater production of capital goods and military equipment.**

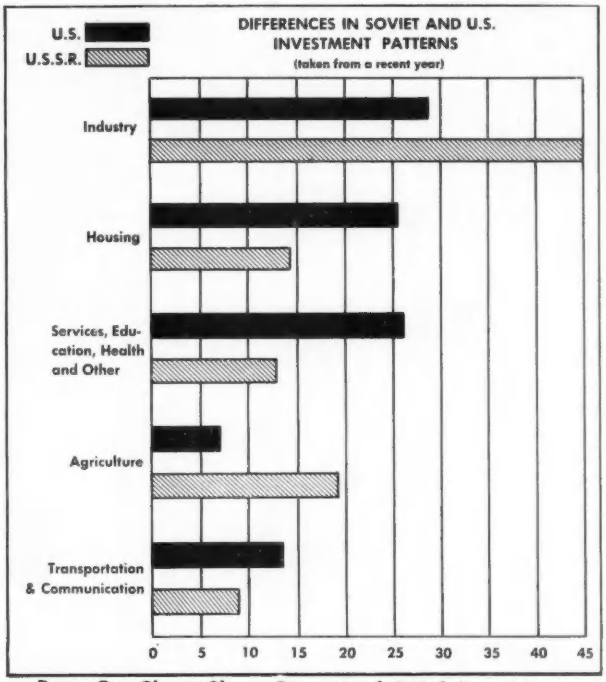
►How is the Soviet Union able to concentrate so heavily on some sectors of the economy while neglecting others? The answer, of course, lies in the totalitarian control the Russian government exercises over the factors of production. Despite some recent liberalization, control of the labor force is still tightly held by the central Government, which allocates manpower among the various industries.

►In similar fashion, the capital resources of the

Increase in Output of Important Consumer Goods — U.S.S.R.

	1950	1957	Index for 1957 (1950=100)
Cloth (million meters)	4466	7108	159
Leather shoes (mil. pairs)	203	317	156
Socks, stockings (mil. pairs) .	473	845	179
Meat (thousand tons)	1556	3100	199
Milk (million tons)	35	55	157
Butter (thousand tons)	336	634	189
Margarine (thousand tons)	192	449	234
Sugar (thousand tons)	2523	4491	178
Fish Catch (thousand tons)	1755	2800	160
Canned goods (million cans) .	1535	3775	246
Soap (thousand tons)	816	1328	163

Source: R. W. Campbell, SOVIET ECONOMIC POWER, 1960.



Bars On Chart Show Percent of Total Investment Accounted For By Each Sector

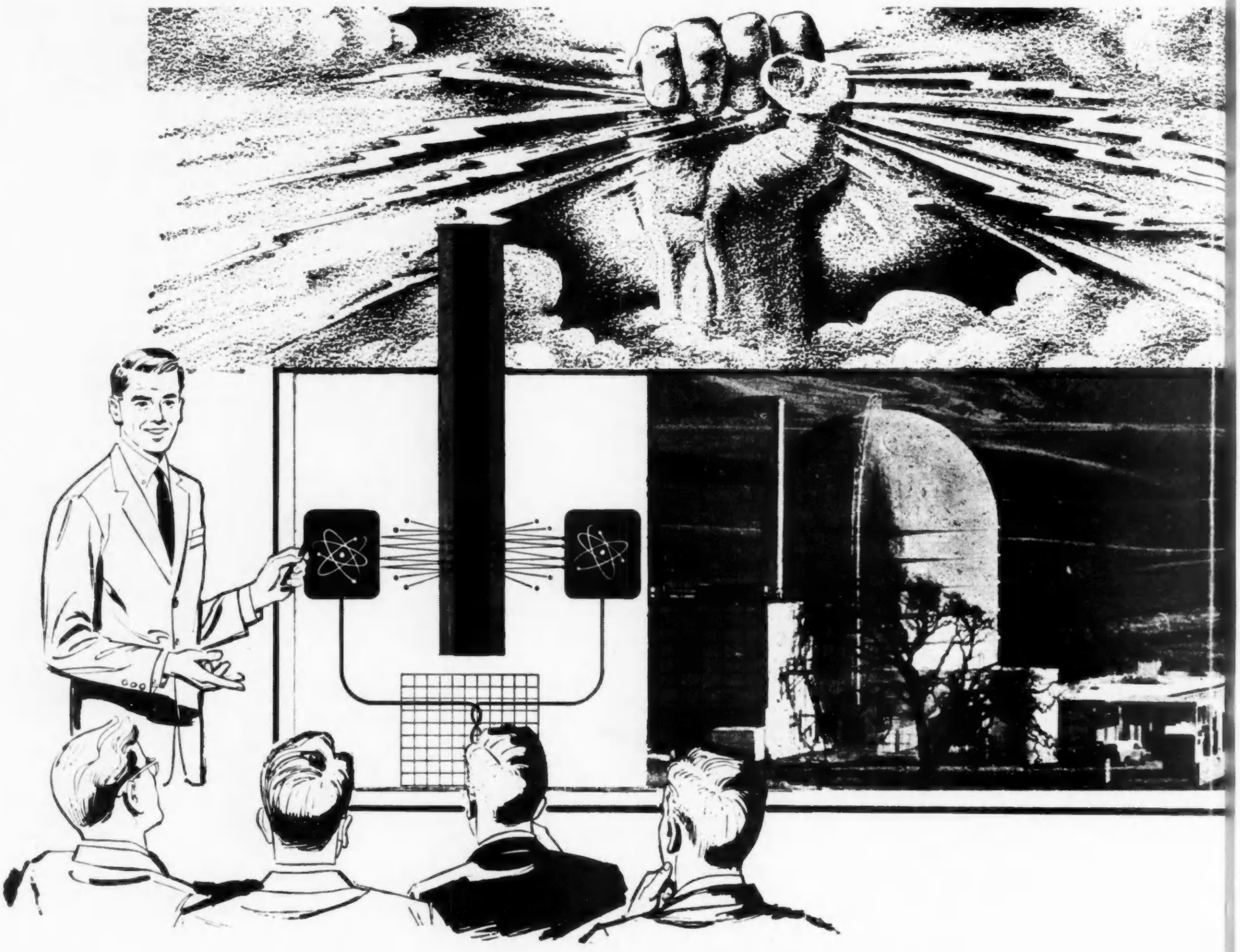
states are made available only to those industries which the government favors, and with the absence of private initiative, other goods simply are not produced. None of these things would be possible in a democratic country, of course—they are made possible by the complete lack of effective consumer pressure in Russia. This is not to say that the Russian people do not have desires and preferences in the purchase of articles of consumption. Their wishes are simply not taken into account, at least to the point of actual unrest.

There is naturally sufficient production of consumer goods to satisfy the basic needs of the populace, although quality still leaves much to be desired. Industrialization, quite literally, has been, and continues to be, financed by the Russian worker and peasant: *"In terms of per capita income, the U.S.S.R. is more nearly comparable to some of the underdeveloped countries, where characteristically the rate of investment is quite low, than it is to the United States. But the startling thing is that the rate of investment in the Soviet Union is higher than it is in the United States." (Campbell)*

The Place of Successful Soviet Industrialization

Has the Soviet Union been successful in its drive for industrialization? In its own terms, yes, it has. As a member of the Central Intelligence Agency said during a recent symposium: **". . . the Soviets have made enough progress in the battle of production so that their economy has been able to bring into being and to support a large and formidable military machine which presently challenges that of the United States for supremacy."**

►And no one who has been abroad and heard the comments about sputnik can doubt the Soviet's successes on the propaganda front. Khrushchev's plans for the future are *(Please turn to page 523)*



POWER UNLIMITED

By OWEN ELY

—Tells the story of the dynamic progress toward meeting the power requirements necessary in the future ...what has been accomplished...and the companies on their toes and heavily involved in these new power projects

ELECTRICITY to-day is the universal base for all industrial development—replacing both muscle and mind-power, to speed production of all machines and goods which contribute to civilization. In the U. S. we are doubling our use of electricity every decade; Russia is said to be moving even faster in her effort to catch up with us, and China may soon be in the race. We have already exploited most of our choice hydro sites, and are rapidly using up our resources of gas and oil—coal may last longer. Hence the urgent need to develop new and more efficient methods of power production before our resources of fossil fuels begin to run out.

Also, there's always the desire to increase efficiency and cut costs—which the electric light and power industry has been doing for decades with improvements in the steam generating plant. Already computers can make such plants almost fully automatic, and huge 800,000 kw units are on TVA drafting boards, compared with the "big" 200,000 kw units of several years ago. Transmission lines of 700,000 kw are proposed by General Electric, so that generating plants can be located at coal mines and send their electricity further to market. But eventually these huge plants may, like the dinosaurs of old, become obsolescent and be replaced by small local generators which are basically more efficient, such as fuel cells.

Phenomenal Progress Under Continuing Research

The picture of "power progress" has many facets because there are a number of different objectives.

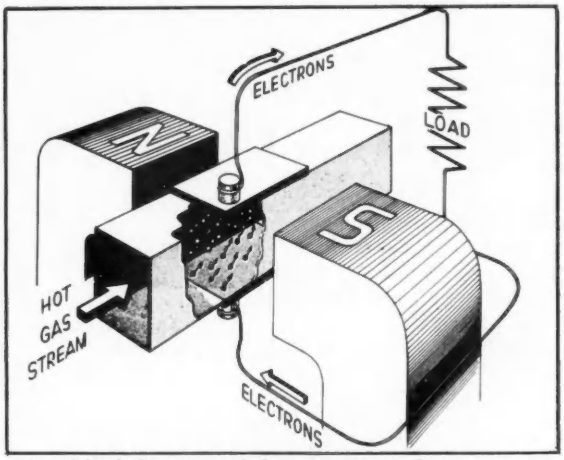
► **First, we want to get maximum efficiency in our national network of electric power plants by use of hydro, steam, atomic power, solar energy, etc.**

► **"Fossil fuels" at present hold first place but we are concerned by future shortages, hence we are developing atomic power—with the hope also that it will eventually prove more efficient.**

► **We are also experimenting with fusion—which would unleash tremendous amounts of power from a practically unlimited supply of fuel ("heavy water" taken from the ocean).**

► Secondly, we need power in small packages to propel moving vehicles, or for the military to use in the Arctic or elsewhere, or for space exploration. ► More efficient batteries, or the new fuel cells, may soon restore the electric automobile. ► Small atomic reactors are being built to serve defense workers on the DEW Line in the far north. ► Solar cells seem to find a major use in satellites. Different considerations of weight, cost and efficiency govern in each case.

Major efforts are also being made to develop basically more efficient methods of producing power both for local and wholesale uses. **Defense funds are available to many companies to speed experimentation, hence progress today is at a faster pace than ever before. Accounts of new processes, with weird names and strange devices, bewilder the average unsophisticated newspaper reader.**



Simplified diagram of the operation of a magneto-hydrodynamic generator which can be used for the generation of power.

The Advance in Atomic Power

First, what headway are we making with atomic power? A few years ago the project of "harnessing the atom bomb" for commercial power production was hailed as having great possibilities. It was hoped that atomic power plants could be built to produce power more cheaply than the conventional plants burning fossil fuels—coal, gas and oil. But, thus far these hopes have not been realized. Atomic power costs about 9 to 20 mills to produce compared with 6 to 7 mills in the best fuel-burning plants.

► Several big atomic power plants have now gone into operation—Shippingsport in Pennsylvania, Dresden in Illinois, and Yankee Atomic in New England. This year Con Ed's big Indian Point Plant will be completed and others are in various stages of planning or construction. Five projects with a combined rating of nearly 400,000 kw are now in operation; and fifteen with a combined rating of 800,000 kilowatts are under construction, design, or contract negotiations; while four others with combined ratings of 900,000 to 1,000,000 kw are in the planning stage. The total of 25 projects will have a capacity over 2 million kw, or about 1% of all generating capacity. Seventeen of the projects are associated with investor-owned systems, four with non-federal government-owned systems, one with a cooperative organization, and three are located at Atomic Energy Commission installations.

► **Why is the cost of generating atomic power so high?** A major factor has been the necessity of spending large amounts for huge "domes" and other safety appliances, which add up to about one-third of the total plant cost. Even so, the Enrico Fermi Plant in Michigan has been delayed perhaps a year by the contention of Michigan labor unions that the plant is unsafe in its present location near Detroit. The recent accident in Idaho in one of the smaller AEC experimental reactors (designed for military use in the Arctic) killed three people. This was the first serious accident but it again emphasizes the safety problem. The AEC has now ordered a safety check of all U.S. reactors.

► **However, there seems to be little doubt that atomic power costs will be considerably reduced over the years. Enriched uranium (U 235) is extremely costly and the U.S. supply that is being produced by the AEC for use in atomic bombs as well as in commercial reactors may use up as much as 3 or 4% of all the electricity generated in the United States.**

Roads Toward Cost Reduction

Hence, any reduction in the cost of U 235 should help to lower the cost of atomic power. ► The **Degussa Company of Frankfort** is now producing a new type of centrifuge to separate U 235 from the other components of uranium ore, and **Professor Barth of Bonn University (Germany)** says that the new process will need only one-tenth as much electricity as the present process, while the centrifuge itself can be made at moderate cost. Either the SEC or private companies should explore this possibility.

The **Martin Company** of Baltimore several months ago was granted a license by the SEC to test an advanced type of nuclear power reactor known as "LFBR." Martin would substitute for the neutron-absorbing control rods (now used to regulate the rate of nuclear fission) pea-sized pellets of enriched uranium suspended in water. The reactor can be regulated by forcing water up through the pellets, which become active when separated by precise distances; and it also serves as a coolant. This process is expected to reduce the cost of producing, refueling and reprocessing atomic reactors.

► Another new development is the molten salt reactor which the AEC is building at Oak Ridge for operation at very high temperatures. With the

fuel in solution, no fabrication of fuel elements is necessary and the removal of poisonous by-products is also facilitated.

► Another project being worked on by several research groups, is the use of the high temperatures in an atomic reactor more efficiently by making a uranium fuel rod an integral part of a thermionic tube. It is estimated that if the new process is successful efficiency might be increased from 30% to 45%.

► Still another new idea is to use a plastic thermocouple to produce electricity from nuclear reactors; the plasma would be substituted for one of the two dissimiliar metals used to produce thermonuclear electricity.

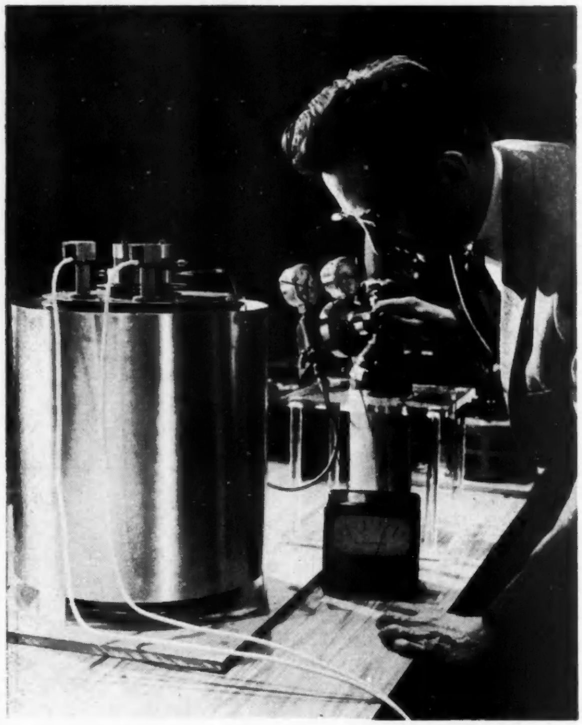
► There have also been great hopes of developing a practical process for obtaining cheap power in unlimited amounts by the fusion process (as opposed to fission in the atomic power reactors). Many laboratories throughout the world have been feverishly at work on the problem. They have constructed equipment with all kinds of queer names, such as "stellerators," "zetas," etc., but progress has been painfully slow, mainly because of the problem of controlling gases at millions of degrees.

► The **British** have become disillusioned and are scrapping their "pinch" machines. New designs are coming to the fore with the usual queer names, such as "cusped geometry" reactor, "caulked picket fence," and "helixion."

► Apparently **Soviet** physicists are following the same trend—they calculate that plasmas threaded by internal magnetic fields lose a great deal of energy in the form of long infra-red rays, at the enormous temperatures required to produce fusion; hence, the new trend is to use only magnet fields *outside* the gas.

► Important progress was reported early in November by **Dr. Frederick H. Coensgen of the Lawrence Radiation Laboratory in California.** He stated that he has been able to produce a flash of energy with a temperature of 60 million degrees—which was maintained for one-thousandth of a second compared with a few millionths of a second heretofore. The new device is called a "magnetic mirror" machine. Apparently, he has found a new way to arrange the magnetic fields so that the plasma can be confined at high temperatures in a space about the size of a football. The method of verifying the results—by measuring the production of neutrons—is also new. Further progress with this apparatus is hoped for.

► More recently **International Tel. & Tel.** has announced apparent success with an entirely different type of apparatus, invented by **Dr. Philo T. Farnsworth** at his Fort Wayne Laboratory. In former days Dr. Farnsworth was a celebrated inventor in the television field; his company was taken over by I. T. & T. some years ago and he was retained as a research expert.The present experiments have been under way for about four years and represent a principle which other authorities in nuclear research earlier rejected as unpromising. It involves the firing of electrons into the center of an 8" metal ball with the object of forming an electron cloud that would force together a core of positive tritium ions hard enough and long enough for a fusion reaction. It is reported that the AEC is interested in Dr. Farnsworth's work and is planning to send representatives to his laboratory.



Picture of a fuel cell which uses chemicals to produce an electric current and for which a wide range of future applications are foreseen.

► Further details of the new apparatus may be forthcoming in 1961. Tritium is a rare isotope present in deuterium or "heavy water." The latter is contained in virtually unlimited amounts in the oceans and can be separated from ordinary water at fairly moderate cost. The separation of tritium is, however, much more difficult but while it is a costly form of "fuel," nevertheless the probable simplicity of the apparatus should make the cost of fusion power considerably less than that of atomic power, in this writer's opinion. Moreover, there would be virtually no danger of radiation or atomic fallout as with atomic reactors—there would be no dangerous by-products from fusion as compared with the lethal offshoots of fission.

► Two distinguished **Swedish physicists** have recently proposed a new way to handle the problem of insulating the fusion-producing plasma (at millions of degrees temperature) from the walls of the containing vessel. Instead of using magnetic fields in a vacuum, they propose that the plasma be bottled-up in a magnetized gas at high pressure. They believe this will eliminate the snake-like writhing of the plasma toward the walls of the tube.

► **British researchers** at Harwell are reported enthusiastic about the new proposal. **Dr. Alfven of Stockholm** has already set up a pilot plant and high-speed photographs of the reaction seem to indicate that the plasma remains very stable. However, the problem of lost temperature through radiation losses may prove difficult.

Picture of a thermionic power generator. Lightweight characteristics may be useful in space application.

The Fuel Cell

Turning to the research on "small power" as opposed to the "giant power" of atomics and fusion, much work is being done on the fuel cell. Like the electric battery, so widely in use, the fuel cell uses chemical reactions to produce a current, but unlike the battery the cell continues to operate as long as fuel is added—the same as an engine. It's much more efficient than the latter, however—75% has been achieved and 90% is considered possible compared with some 25-30% for various types of engines, and 40% for a steam-generating plant. But weight is also a factor, as well as the ability to operate over long periods of time without clogging from impurities. On the basis of power output per unit of weight, the hydrogen-oxygen fuel cell is said to be approaching a competitive status with the Diesel engine, but still has a considerable distance to go before it can compete with the gasoline reciprocating engine.

► The basic principle of the fuel cell is very simple—it merely transforms the **chemical** energy in hydrogen (not the **atomic** energy as with fusion) directly into electric current. Of course other fuels than hydrogen can be used. **Thompson Ramo Wooldridge** reports it has developed a compact cell which regenerates its own fuel. A typical unit designed to generate half a killowatt for sixty days would weigh only about one-sixth the weight of a non-regenerative system plus the additional fuel required. A small nuclear reaction will probably be used to regenerate the fuel.

► Recently **M. W. Kellogg Co.,** a subsidiary of **Pullman Co.,** announced a new kind of fuel cell using an amalgam of sodium in mercury and oxygen to produce electricity. According to reports, the new cell ranks high in efficiency (60%) as compared with older types of Hydrox and Carbox. While the Kellogg cell is designed for military use and develops only about 75 kw of direct current, the cells can be hooked together in series. The big advantage of the new cell is its low weight—only one-thirtieth that of an ordinary storage battery.

The Companies Involved

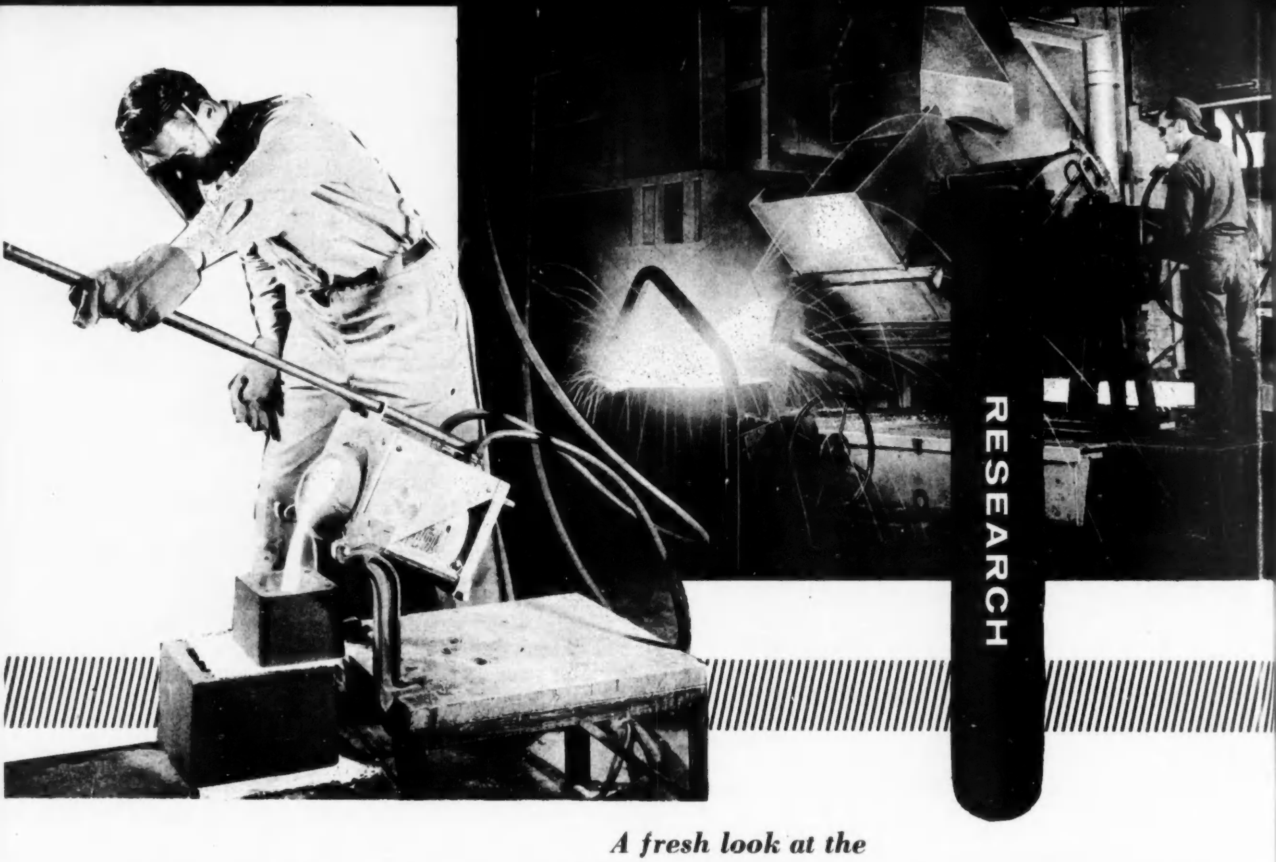
Other companies active in research in the field of "artificial" methods of creating electricity—besides fuel cells, there are the thermoelectric, thermionic and magnetohydrodynamic power converters—are **General Electric, Allis-Chalmers, Avco, Lockheed, Minnesota Mining, RCA, Ionics** and others. However, **Westinghouse** has the distinction of having discovered a brand-new method of converting heat into electricity, called the Austin Effect after one of its scientists. He found that a piece of iron covered first with enamel and then with silver, when heated to 400-1400 degrees F, will produce a current—which will continue while the metal is cooling. The process is not dependent on maintaining *different* temperatures in the two parts of the device, as is the case with thermoelectric and thermionic converters.

Because of the simplicity of the materials, the reliability of the device, and its long life, **Westinghouse** thinks it has important possibilities. The company hopes to be able to produce one kwh for each five pounds of weight, which would be very efficient. The output of the cell has already been increased about 80 times in experiments over a year and a half. Westinghouse is now seeking patents and a military development contract.

► In November, **Avco Corporation** announced that ten important electric utility companies (including subsidiaries of American Electric Power) had joined with it in a research and development project "which could revolutionize the nation's electrical power industry and effect a 25% increase in operating efficiency." Avco scientists had long been studying MHD (Magnetohydrodynamics) which concerns the interactions between a magnetic field and a super-heated ionized gas, in connection with space propulsion projects. At high temperatures the gas atoms tend to lose one or more of their electrons, which permits them to conduct electricity. Thus, an ionized gas passing through a magnetic field will generate electricity—the gas taking the place of the armature (solid coil of wire) of a generator in the conventional power plant.

In a future commercial power plant a chemical furnace or nuclear reactor could heat and ionize the gas, which would then flow through the magnetic field in the MHD generator. The resulting direct current would be "tapped off" the ionized gas by means of electrodes, for commercial use. The gas, after being cooled, compressed and reheated, could be used over again.

There are a number of exotic power packages proposed for use in space vehicles and modern warfare gadgets, and concluded that "theoretically some of the new devices should make nuclear power plants as efficient as the best of today's steam power plants, and they could *(Please turn to page 527)*



A fresh look at the

IMPORTANT NON-FERROUS METALS PICTURE for 1961

By WILLIAM F. BOERICKE

► This expert study assays the position and outlook for copper — aluminum — zinc — and lead on the domestic — on the foreign level — under competitive prices . . . tussle for markets — new and diversified products . . . with an appraisal of earnings-dividend potentials for individual companies

THE year just ended closed drably for the four principal non-ferrous metals—copper, aluminum, zinc and lead. High hopes that were voiced at the start of 1960 for record demand and consumption were not fulfilled. Yet the year will still go down as one of the better ones in the industry. Copper and aluminum production were at an all time high. Zinc output was slightly more than in 1959, but lead production was lower. Metal prices held up well until the end of the year, then faltered. Dividends were maintained. Why then, have investors shied away generally from the metal stocks, and why have market prices for the equities slumped, with a few exceptions from the highs of 1959-60?

Psychology—The answer in part is due to the psychology of investors, in part to an incomplete and superficially disturbing analysis of trade conditions in the metal field. 1960 was a year of emphasis on "growth" stocks that didn't include the old line metal group. It mattered little or not at all whether a "growth" company had any established earning power, provided it operated in a new field where potentials were believed to be alluring. In short, the unproven new attracted vastly more speculative enthusiasm than the old established metal producers whose growth, at least in the United States, appeared limited to a modest three or four, per cent a year.

Facts—So much for the psychology. On the factual side, it was easy to pick out some disturbing figures that without a more searching analysis, could cause alarm. While production showed satisfactory increases, demand failed to keep pace. Inventories of metals in the hands of the producers climbed. Production capacity appeared to exceed the call for metals, particularly for copper and aluminum and more increases were scheduled shortly to come on stream. Dire forecasts of price declines were commonplace.

The Price Factor

There probably was never a better advertised cut in the copper price, for example, than the 3 cent reduction from the 33 cent price that had held for a year's time. It was quite overlooked that a 30 cent price for copper was far from disastrous, that it was more than the average price for the decade 1950-9, or that it had been declared by many

Leading Non-Ferrous Metal Companies

	1st 9 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. Current Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
Aluminium Ltd.	$315.9	$380.2	4.8%	8.4%	$.50	$1.50	$.74	$.79	$2.34	$.70	35⅛-28⅛	32	2.1%
Aluminum Co. of America	643.0	657.5	6.4	4.5	1.88	1.33	1.96	2.52	6.12	1.20	108 -61⅜	73	1.6
American Metal Climax	470.9	524.0	4.5	5.4	1.48	2.01	1.27	2.15	2.88	1.40	27⅜-20¼	25	5.6
American Smelting & Refining	314.5	354.1	3.2	5.4	1.42	3.06	2.53	1.74	4.34	2.00	59 -42	56	3.5
Amer. Zinc, Lead & Smelt.	37.4	40.4	3.2	4.8	1.01	1.61	.96	1.48	2.22	.50[1]	18⅜-13⅝	14	3.5
Anaconda Co.	N.A.	N.A.	N.A.	N.A.	4.40	3.75	3.16	5.53	10.32	2.50	68⅜-42⅛	46	5.4
Bridgeport Brass	131.8	110.9	4.1	1.9	3.35	1.19	2.80	4.40	6.80	1.40	41⅛-20⅜	25	5.6
Bunker Hill Co.	34.6	27.0	d.5	d3.8	d .14	d .69	d1.45	.09	1.31	—	12 - 9	10	—
Calumet & Hecla	62.0	59.1	5.8	4.2	1.74	1.13	1.49	2.42	3.52	.40	26⅜-12⅞	14	2.8
Cerro Corp. **	113.9	127.4	5.2	6.2	2.39	3.01	2.39	3.65	6.00	1.10[1]	42 -27	34	3.2
Consol. Mining & Smelt.	62.8[4]	64.2[4]	13.6	20.7	.52[4]	.81[4]	.86	1.02	1.59	1.00	21¾-17½	20	5.0
General Cable Corp.	N.A.	N.A.	N.A.	N.A.	1.98	1.97	2.19	2.71	4.09	2.00	45⅝-32½	36	5.5
Hudson Bay Min. & Smelt.	33.4	35.2	20.4	22.8	2.47	2.92	2.68	3.59	4.38	3.00	54½-43½	46	6.5
Inspiration Consol.	22.4	19.1	N.A.	N.A.	3.74	3.16	1.87	5.07	6.78	2.50	43¼-29½	35	7.1
International Nickel	317.5	383.5	18.3	16.3	2.00	2.15	1.36	2.92	3.41	1.60	59⅛-47¾	59	2.7
Kaiser Alum. & Chem.	323.1	313.5	4.7	5.5	.77	.93	1.43	1.77	4.45	.90	54⅞-32	39	2.3
Kennecott Copper	365.2	380.9	N.A.	N.A.	5.31	5.68	5.44	5.19	6.34	5.00	100⅞-71⅝	77	6.4
Magma Copper	38.5	45.9	2.6	12.6	.83	4.82	.58	d2.08	1.20	[3]	59½-34¼	41	—
Mueller Brass Co.	52.7	46.4	2.3	1.3	2.18	1.07	2.68	3.42	5.90	1.40	28⅞-19	21	6.6
National Lead	396.4	401.4	9.8	9.3	3.20	3.07	3.65	4.30	5.45	3.25	109½-78	87	3.7
New Jersey Zinc	N.A	N.A.	N.A.	N.A.	1.39	1.07	.41	1.77	3.52	1.00	32 -18½	20	5.0
Phelps Dodge	232.3	212.0	14.8	12.8	3.22	2.68	3.75	3.41	4.09	3.00	57⅝-43½	48	6.2
Revere Copper & Brass	186.7	164.8	4.1	3.1	2.88	1.96	.94	3.77	5.16	2.00	50½-33¾	39	5.1
Reynolds Metals	366.2	330.0	8.5	5.7	1.68	.94	2.24	2.41	4.37	.50	71⅞-37⅛	46	1.0
Rhodesian Selec. Trust	N.A.	N.A.	N.A.	N.A.	.19[2]	.30[2]	.17	.25	—	.13	2¼- 1⅛	1½	8.6
St. Joseph Lead	64.9	62.2	7.0	3.3	1.68	.77	1.52	2.31	3.53	1.00	32 -24¼	28	3.5
Scovill Mfg. Co.	113.0	107.6	3.0	1.3	2.03	.79	d.25	2.37	6.29	1.00	30 -16	17	5.8
U. S. Smelt. Ref. & Mining	N.A.	N.A.	N.A.	N.A.	d1.34	d.63	d3.41	d1.02	3.84	—	36½-25⅝	27	—

*—Based on latest dividend rate. d—Deficit. 1—Plus stock. 3—Paid 5% in stock.
N.A.—Not available. **—Formerly Cerro de Pasco Corp. 2—Year ended June 30. 4—1st 6 months.

Aluminium Ltd.: Lowest cost producer of aluminum because of immense hydro power facilities. Mainly a producer of primary metal but expanding its fabricating facilities. Now operating much below capacity but long term outlook is good. **A3**

Aluminum Co. of America: Largest world producer of aluminum. Current profits reduced by relatively low operating rate. The leader in expanding markets for the metal. Fully integrated, strong progressive management. Now priced substantially below its 1959-60 high. **A4**

American Metal Climax: Leader in molybdenum output. Its important copper share holdings in Rhodesian mines are threatened by political turmoil in nearby Congo. Dividend recently raised. Finances strong. **B1**

American Smelting & Refining: World's leading custom smelter. Mining interests increased through control of huge Southern Peru Copper Co. Has also important interests in asbestos mine in Quebec and in operations of Mt. Isa Mines Ltd. in Australia. Increased earnings projected from these sources in future. **B1**

American Zinc Lead & Smelting: While 1960 earnings will probably exceed $2 a share, recent sharp cuts in zinc prices will reduce earnigs level. Large reserves of good grade zinc ore in Tennessee, low cost operations. Fully integrated. **C4**

Anaconda: Has largest reserves of copper ore in the world through ownership of two Chilean mines, plus the important Butte operations. Completely integrated through American Brass and Anaconda Wire & Cable. Important producer of uranium and zinc. Its aluminum facilities of growing interest. Subject to labor uncertainties in Chile. **B2**

Bridgeport Brass: Hard hit by depressed conditions in brass and copper fabrication. Largest independent producer. Moving into aluminum fabrication and joining with Aluminium Ltd., Scovill, and Cerro Corp. in building large aluminum rerolling mill. **B4**

Bunker Hill Co.: Formerly Bunker Hill & Sullivan Mining Co. Leading lead-zinc-silver mines and smelter, operating in Idaho. Company has been hard hit by a 7-mos. strike which closed virtually all operations and only recently has been settled. **C4**

Calumet & Hecla: Principal business in copper fabrication but also interested in uranium and magnesium. Has only small copper output. Profits hurt by slump in copper fabricating business. **C4**

Cerro Corp.: Name changed from Cerro de Pasco. About half its assets now are in U.S. and these furnish about half the company's profits, thus lessening dependence on mine operations in Peru. Has 22% interest in Southern Peru Copper Corp. **B2**

Consol. Mining & Smelting: Controlled by Canadian Pacific RR. Largest Canadian zinc-lead producer, low cost. Has 78% interest in Pine Point Mines with extensive lead-zinc ores but production some years off. **B2**

General Cable: Strong well-run fabricator of telephone cable. General Telephone & Electronics and American Smelting are large stockholders in the company. Strong sales organization, aggressive management. Position in industry less cyclical than others. **B4**

Hudson Bay Mining: Well established Canadian copper-zinc producer, but profits are cyclical depending on metal prices. Strong finances. **B2**

Inspiration Consol. Copper: Important domestic producer. Anaconda has large stock interest. Company will bring in its new Christmas mine late this year, which may add to earnings. Medium cost producer. **B4**

International Nickel: Produces about 60% of world's nickel supply. Has important new mine in Manitoba which can add substantially to production. Also largest copper producer in Canada, and has sizeable platinum output. Strong management, finances excellent. Good growth situation. **A2**

Kaiser Aluminum: Third largest factor in U.S. aluminum industry. Kaiser Industries and Kennecott have large share interests. Stock heavily leveraged by large senior debt. Competitive situation improved by completion of Ravenswood plant. **C4**

Kennecott Copper: World's largest copper producer, with important molybdenum and gold output. Low cost production. Participates with Molybdenum Corp. in Quebec columbium deposit. Fully integrated. **B2**

Magma Copper: Made important comeback profitwise after long strike. Has large low grade ore body in its San Manuel mine. Company has sizeable tax-loss carry forward but no dividends can be paid until Government loan is liquidated. **C3**

Mueller Brass: Well regarded fabricator, less affected by competition from abroad because of its middle west location. Showing improved earnings. **B3**

National Lead: A blue chip stock in the metal industry. Highly diversified activities, paints, drilling mud, titanium, die castings, fabricated lead products. Earnings have held up well in 1960. **A2**

New Jersey Zinc: Company has been hard hit by a long strike at its principal mines and smelters, which reduced 1960 earnings sharply. Lower zinc prices in 1961 will put a brake on profits. **C4**

Phelps Dodge: Second largest domestic copper producer. Fully integrated. Low cost mines. Has 16% interest in Southern Peru Copper Corp. **B2**

Revere Copper & Brass: Strongly situated in fabrication of copper, brass, and aluminum. Has half interest with Olin Mathieson in Ormet, a new primary aluminum producer, which is expected to add to future earnings. **B4**

Reynolds Metals: Major integrated aluminum producer. Highly aggressive management. Has acquired control of important British affiliates which improves its competitive position. **B4**

Rhodesian Selection Trust: Leading copper producer in Northern Rhodesia. Controlled by American Metal Climax. Profits excellent but outlook clouded by political risks in Africa. **C2**

St. Joseph Lead:: Largest domestic lead producer, important also in zinc output. Interested jointly with Bethlehem Steel in developing a new iron mine in Missouri. Owns good zinc and lead properties abroad. Lower prices for these metals will affect profits unfavorably in 1961. **B4**

Scovill Mfg. Co.: Leading independent brass fabricator, with highly diversified line of products. New management has made considerable progress in 1959-60. **C4**

U.S. Smelting: Earnings depressed by low zinc and lead prices. Important gold recovery from dredges in Alaska. Considerable success with its oil investments. Strong finances. **C2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

copper executives to represent a price level that was equally fair to producers and consumers.

Much the same is true for zinc. Producers enjoyed a steady price of 13 cents a pound during the year until December, when it was reduced to 12 cents. But 12 cents is better than the 11.4 cent average of the preceeding seven years 1953-59 during which the zinc industry had reasonable profits.

The aluminum price situation is a bit more complicated. While the price of unalloyed ingot was advanced to 26 cents a pound last August, it has been honored more in the breech than in the performance. Particularly has this been true in the price of certain mill products, especially for building sheets where severe competition has been rife. More will be said on this situation in a later paragraph.

The lead situation is the least hopeful of the major metals. Unlike the others lead production has been relatively low, but demand has been lower. Shipments for the first 11 months were 75,000 tons less than in 1959 and domestic mine output was the lowest since 1900. Lead has been hard hit by competition from aluminum and plastics in cable sheathing, an important sales outlet. The trend to compact cars has brought with it the need for smaller size batteries that require less lead in manufacture. New markets are needed for this age-old metal. The current 11 cent price is 3 cents lower than the average of 14 cents for the seven years 1953-9, and only the major producers can operate profitably at this level. Fortunately, most lead producers recover zinc or silver as a by-product.

The Story of Production

Turning specifically to copper, domestic mines had an excellent year so far as production is concerned. The year was strike-free, following the settlement early in January. In consequence, U.S. production was up 30 per cent over 1959 when output was seriously curtailed by work stoppages. For 1960, domestic mine output will likely top all previous records and exceed 1,500,000 tons. To this can be added about 142,000 tons of secondary production. This would be all to the good if copper consumption as measured by fabricators deliveries to users showed the same rate of increase. Unfortunately it doesn't. Consumption for the year will probably not exceed 1,160,000 tons, and fabricators stocks at the year end are higher than at the start, although not uncomfortably so. Through the third quarter of 1960, copper deliveries by the producers to fabricators have been below the 10-year monthly average of 112,000 tons. It would appear that this unusual showing does not indicate any lessened use of copper by consumers, but rather was caused by inventory liquidation by the fabricators' customers. One of the major factors in the brass industry has calculated that end users have liquidated over 150,000 tons of copper and copper products inventory during the last year. This is the largest single volume of inventory withdrawals for more than a decade, and on a monthly basis is large enough to have made a substantial difference in the opening level of the fabricators' business.

More Copper Consumption

It must be admitted that the annual rate of increase in U.S. copper consumption has slowed down to a walk. In the ten years from 1949 through 1959, deliveries to domestic fabricators increased only 280,000 tons, from 1,032,000 to 1,312,00 tons. This would represent an average increase of less than 3 per cent a year.

Quite different, and much more encouraging, are the figures from abroad for copper consumption. While copper production mainly from the prolific mines of Chile, Northern Rhodesia, Canada, and the Congo boosted output of the red metal to a new record figure of over 2,375,000 tons in 1960, deliveries to foreign fabricators jumped to about 2,290,000 tons, a gain of some 600,000 tons over 1959, or about a 36 per cent increase. It is safe to say that without this astonishing demand for copper on the Continent and in Great Britain, the statistical position of the metal at the year end would have been grave.

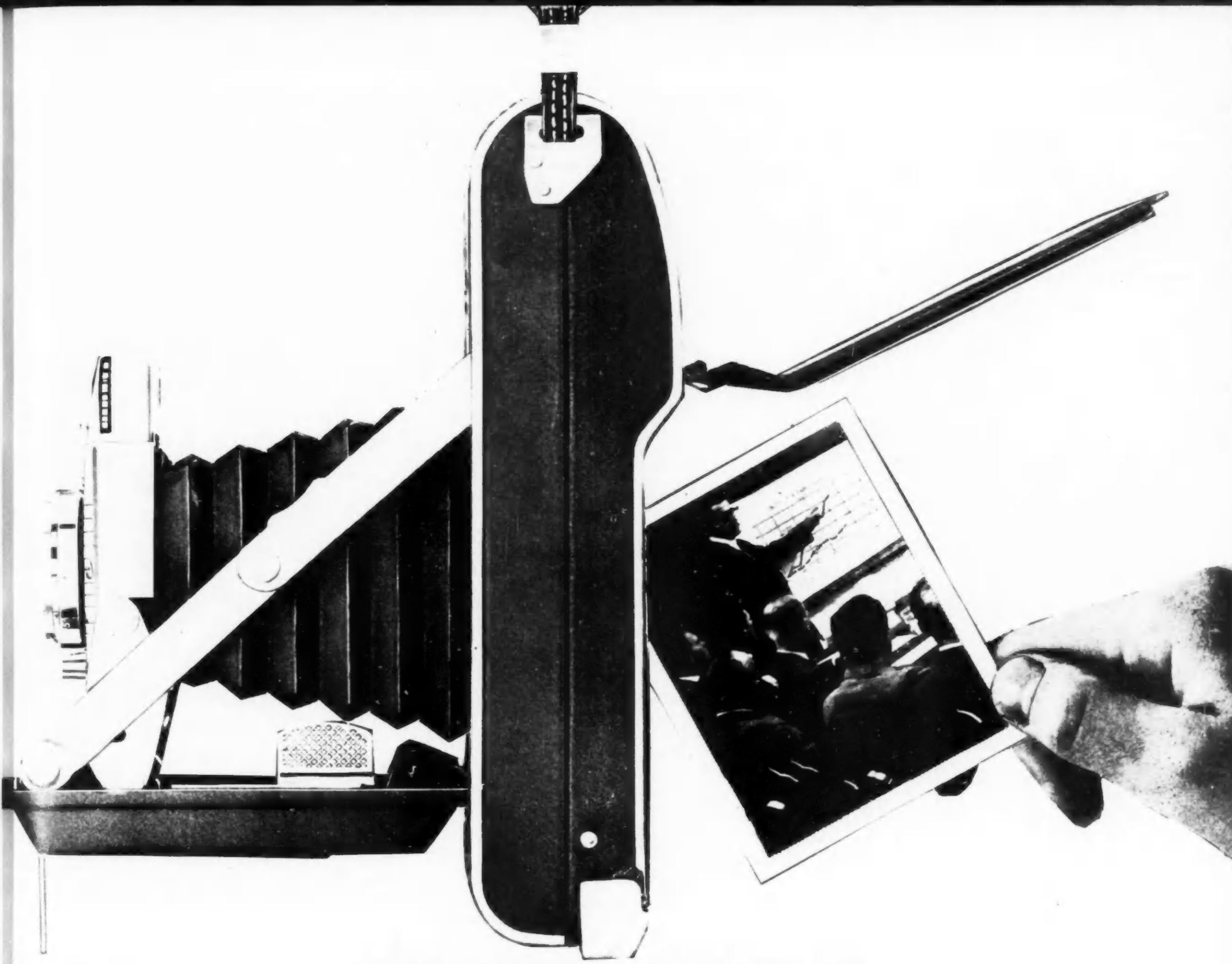
During the five years from 1959 through 1960, copper consumption in the Free World, ex-U.S., increased some 833,000 tons, or about 60 per cent. In the same period, U.S. consumption showed no increase. Of course it should be recognized that per capita consumption in this country is about 14 pounds, which vastly exceeds per capita use in other parts of the world, excepting the heavily industrialized countries of Europe, where the consumption figures are much distorted by the volume of fabricated exports. In such countries as Asia and Africa per capita consumption is probably less than 1 pound, and the industrialization of backward nations seems certain to increase copper demand to a point where existing production capacity may be unable to cope with it in a few years.

Copper is an international commodity and its statistical position must be considered from a world standpoint. A study of world figures is essential for any real understanding. It should be realized that our figures are not comprehensive. The Copper Institute presents Free World Statistics, but omits a few important countries and estimates they include only 90 percent of the Free World picture.

Omitted because of inability to obtain reliable figures are Russia and its satellites behind the Iron Curtain. However, fairly good figures from German sources place Russian copper outputs as over 500,000 tons a year. It seems certain this is not sufficient to supply Russian consumption and the country is believed to buy copper on balance. At any rate there is little reason to think that Russia will be a seller of copper on the world market for many years and will not attempt to disrupt the price as it attempted to do with aluminum and tin a few years ago.

The November world figures from the Copper Institute were disturbing in indicating quite plainly that world production is outrunning demand. Thus in November, production exceeded deliveries by about 7.5 per cent. Meanwhile world stocks of refined copper had increased to over 428,000 tons. This was an increase of nearly 121,000 tons since the end of 1959. The last time stocks equalled this lofty figure was in August, 1958 when the U.S. price was 26½ cents. Speculators immediately sensed that if historical precedent followed, the present price of 30 cents was vulnerable.

However, this hasty *(Please turn to page 525)*



CAMERA STOCKS

—What is the investment picture for 1961?

By ROBERT B. SHAW

- **The growing interest in photography among young and old — expansion for commercial and industrial purposes — motion pictures — medical diagnosis . . . zooming sales for one-minute-photographic-process . . . broad accessory market**
- **Intensified research — rapid obsolescence . . . strong and active competition between Eastman Kodak — Polaroid — Bell & Howell — Fairchild Camera and Instrument . . . Eastman's new five-second picture**
- **Position and earnings-dividend prospects for the individual companies**

WHENEVER old friends meet, after a considerable absence, it is almost inevitable that they will finally get around to the exchange of photographs, which each of them "just happens" to have with him. Subjects of the snapshots can be predicted pretty well according to the age of the possessors; teen-agers will have pictures of boy- and girl-friends; young adults will proudly exhibit photos of their children; and those over 50 will be prepared to illustrate tales of the cleverness of their grandchildren. The production of these photographs provides a great deal of human satisfaction at the same time that it creates a profit opportunity for astute manufacturers of the requisite photographic equipment and supplies.

Thus photography, based on the natural desire of people to capture and re-create happy memories, has a universal appeal. Nevertheless, there have been times when the camera companies have almost neglected their major market. Every amateur photographer has probably fallen in at some time with a group of fans who have so discouraged him with their interminable talk of focal lengths, emulsion preferences and fixing solutions that he has wearily resolved never to take a picture again. Fortunately, the camera makers have come to realize that serving the limited circle who regard photography as an art does not preclude primary attention to the

great majority to whom it is simply a satisfying pastime; and they have concentrated in recent years on easy-to-handle, down-to-earth equipment.

Emphasis Upon the Family Market

Photography is based upon the fact, simple to state but extremely difficult to accomplish physically, that light reflections on certain sensitized plates can be "stopped" and then preserved permanently by bathing in proper acid solutions. The obstacles in the way of commercializing this process caused a long delay in the development of photography, which was already being practiced on a primitive basis early in the last century, and allowed pioneer **Eastman Kodak** to retain a virtual monopoly in this country for many years. Now, however, further technical advances are coming in rapid order, and Eastman, while still the major factor, is far from having the field to itself. But before examining individual companies, let's look more closely at the general photographic market.

The National Association of Photographic Manufacturers has indicated that roughly 36% of all photographic products, estimated at a value of about $2.3 billion in 1960, are used for amateur snapshots and home movies, 26% for commercial and industrial purposes, 13% for professional motion pictures, 14% for photocopy reproduction and 11% for medical diagnosis. Except for motion pictures, each of these segments enjoys an outlook of constant expansion.

The family market, in particular, already the largest, can look forward to virtually unlimited growth. Parents are always interested in preserving tangible records of their children, and the post-war boom in baby births — to be followed, in due course, by confirmation, graduation, marriage and other significant occasions — has already boosted sales of cameras, films and photographic apparatus. While the birth rate has recently eased off slightly, it should enter a new fertility cycle within a few years as the war babies themselves reach child-bearing age.

But the photographic market is by no means limited to the actual size of the population. Children themselves can learn to handle and own the new simplified cameras at an early age. Thus, the one-camera family is probably already obsolete, and an objective of one camera a person is not at all unrealistic.

Heavy Accessory Sales

The purchase of every camera, rather than saturating the market to that extent, really means an enlarged market for allied photographic equipment, much of it of an expendable nature. Actually, the annual sale of film and paper usually exceeds the value of camera and projection sales by about 50% every year. Further, there are unlimited accessories for the photographer who desires to improve his standards. Finally, technical improvements have been occurring so rapidly within the last several years that the old equipment has experienced a very rapid rate of obsolescence.

Among these innovations have been the "electric eye" or photo-electric cell which measures light and sets the lens opening accordingly, dispensing with the farmer separate light meter; much faster film sensitive to less favorable light conditions; and, of course, **Polaroid's** famous picture-in-a-minute process. These simplifications in picture-taking have been matched by others in the manufacture of cameras and the development of film. Eastman introduced the electric eye as long ago as 1939, but it has only recently been brought into a popular price range, a $159.95 model having been introduced by Polaroid during the past summer.

Besides his cameras and picture-taking apparatus every devotee must also own the necessary projection equipment in order to show motion pictures and color transparencies to his friends. Until very recently it was always inevitable that the film would break at some point during any amateur movie showing, requiring difficult rethreading — a process that was not exactly pleasant when the audience consisted, for example, of a pack of hooting, squirming Cub Scouts. Today, vastly improved projectors for both continuous film and slides are on the market; the former are all but self-threading (at prices as low as $54, for Kodak's Brownie A 15), while the slide projectors change pictures at the touch upon a button.

Rapidly Growing Competition

Industrial and commercial photography also has an unlimited horizon. The role of photography in advertising requires no comment. Other applications range from serial shots of terrain for prospecting or surveying to microscopic analysis of metals or bacterial cultures. Educational application is still probably only in a primitive stage. Photocopying machines are rapidly becoming familiar office appliances, and microfilm has solved a difficult record-keeping problem for businesses and government.

This is an extremely bright picture. It justifies high price-earnings ratios for most of the photographic equipment manufacturers. Nevertheless, no investment picture is ever without some blemishes.

First of all, the opportunities cited have attracted increasingly active competition. Although Eastman still holds 60% of the market, its share is almost certain to shrink as other companies grow more rapidly from a much smaller base. Already Eastman — largely as a result of a government decree in 1955 forcing it to exclude the processing fee from the price of its Kodachrome film — has lost a substantial part of the color processiong business to **Dynacolor. Bell & Howell** and **Polaroid** have now reached the status of majors, and the former **Sylvania Electric** (now a division of **General Telephone**) has been a formidable competitor for years. The Ansco division of **General Aniline** — nearly all of its stock still held by the government as former enemy property — is also an important factor in film and photographic paper.

And, of course, competition is not merely domestic. **Japanese** and **German** cameras appear to match our own in quality, and offer price advantages that invite every traveler abroad to bring one home.

Competition in the photographic field does, however, have one redeeming factor. While a sharp reduction in prices over a period of time has been instrumental in transforming photography from a rich man's hobby into a nearly universal pastime, quality remains a stronger sales incentive than price

alone. According to dealers, customers are usually willing to pay more for better equipment. This is because each individual shot — of a child or a vacation scene — is incapable of duplication at any price, and is therefore worth the best products available. Imports of photographic equipment, although growing rapidly, still represent only 6% to 8% of domestic sales, and lower manufacturing costs abroad are only a limited advantage.

Active Research; Rapid Obsolescence

A second handicap is the high cost of research, of which a rapid rate of obsolescence is a corollary. A large, diversified company like Eastman could survive almost any sudden technological development, but some smaller companies would be considerably more vulnerable.

As an example, **Fairchild Camera** recently dropped sharply following an announcement by Eastman that it had developed a new airborne photographic system of its own. Companies like **Polaroid** that are primarily dependent upon a single process must be able to develop substantial improvements or entirely new products before their basic patents expire. It must even be recognized that photography as we know it today could even be superseded by entirely different processes. Already, of course, visual images are being recorded and transmitted on magnetized tapes, and cameras responding to heat rather than light are being used for some purposes. Some of the smaller photographic companies could be the pioneers in such new developments — or they could be the victims.

Eastman Increasingly Diversified

By a wide margin, giant **Eastman Kodak** is still the leader in the photographic field, its sales — estimated at a new peak of $960 million for 1960 — exceeding those of all of its competitors. To be sure, only about 58% of these now consist of photographic equipment, as Eastman has accomplished sufficient diversification that it sometimes is classified as a member of the chemical industry. While further growth must necessarily be less rapid than formerly, the company's size and diversification provide very strong protection against the type of risks that have just been discussed. The fact that Eastman's growth is not at an end even in the photographic field is demonstrated, however, by its recent announcement of a new photographic system under which exposed movie film is printed for viewing within five or six seconds. Although the first and most obvious use for this system is aerial reconnaissance, and it can be tied in with radar scope, the consumer application to still cameras to provide a service competitive with Polaroid's Land camera naturally suggests itself. The new process is stated to be extremely economical.

At around 110, Eastman is currently down considerably from its recent highs and undoubtedly represents good value for the long pull, although the investor with some taste for history may be puzzled when he observes that earnings per share have merely doubled since 1950 while the price has increased closer to five times. Eastman's 2% dividend yield, although it will look meager to most investors, is still liberal as compared with the purely nominal income offered by all the other photographic stocks.

Can Polaroid Keep It Up?

One of the outstanding financial success stories of the decade has been written by **Polaroid,** a company to which the much overworked description "phenomenal" truly applies. Ten years ago this new entrant in the field was reporting annual sales of $6 million today they are approximately $100 million. What is more significant, the profit margin has been fully maintained and has justified three stock splits in the interim.

Polaroid's zooming sales record is based primarily upon the one-minute photographic development process invented by its president, Dr. E. H. Land. Basic patents on this process expire in 1970 — a date still comfortably in the future — while numerous refinements have meanwhile been added. With the newest film the development time has recently been cut to 10 seconds. The photographic world is also now awaiting the introduction of "instant" (actually, about two minute) color film, which has already been demonstrated experimentally. Polaroid remains about 95% dependent upon the photographic market, but it has initiated a slight diversification into other optical products.

Although many of the analysts who predicted that Polaroid's rapid growth trend must slacken before now have been proved wrong, obvious risks exist in this situation. The market is not merely confined

Exports and Imports of Photographic and Projection Goods
(In Thousands of Dollars)

	1947	1949	1951	1953	1955	1956	1957	1958	1959
EXPORTS									
*Cameras and parts	7,964	4,755	4,401	4,238	6,132	7,382	7,631	9,369	10,251
Motion-Picture & other projectors	7,834	4,412	5,151	4,729	5,526	6,365	6,832	6,318	6,189
Motion-Picture sound equip. & parts	10,284	5,952	5,401	7,067	10,290	9,556	9,809	9,335	8,629
Motion-Picture films (unexposed)	6,782	6,542	7,096	7,364	14,754	16,168	14,784	16,331	17,677
Motion-Picture films (exposed)	11,631	11,302	12,591	13,011	17,896	16,813	16,519	16,327	16,110
Other sensitized film (unexposed)	10,132	11,288	14,115	14,182	16,536	19,339	21,804	22,884	27,404
Other photographic equip. & parts	13,988	9,493	11,304	14,602	18,272	21,799	23,438	24,654	26,100
Total	68,615	53,744	60,082	65,193	89,406	97,422	100,817	105,218	112,360
IMPORTS									
Cameras and parts	2,242	3,265	8,912	14,755	18,549	23,138	28,280	28,337	33,291
Photographic films, sensitized	240	1,464	3,339	3,520	3,136	4,033	6,358	7,347	10,623
Motion-Picture films, sensitized	55	64	424	1,182	927	1,206	2,378	2,521	2,816
Film positives	1,073	1,230	1,558	1,816	1,862	1,755	1,534	1,612	2,114
Other photographic equip. & parts	691	625	822	975	2,586	2,635	2,926	1,018	1,293
Total	4,569	7,062	17,017	25,418	27,060	32,767	41,476	40,385	50,137

* Exclusive of U. S. Government shipments for security reasons.

Manufacturers of Cameras and Photographic Equipment

	1st 9 Months				Full Year							
	Net Sales		Net Earnings Per Share		Earned Per Share			Cash Earn. Per Share	Current Div. Per Share	Price Range	Recent	Div. Yield
	1959 (Millions)	1960 (Millions)	1959	1960	1958	1959	Est. 1960	1959	*	1960-1961	Price	%
Bell & Howell	$71.0	$83.0	$.88	$.94	$.49	$1.33	$1.50	$1.89	$.40	57½- 37⅝	50	.8%
Eastman Kodak	621.8	646.9	2.27	2.27	2.57	3.24	3.25	4.33	2.25	136¼- 94	109	2.0
Fairchild Camera & Instr.	30.3	49.4	1.39	2.39	.57	2.00	3.00	3.42	.50	201¾-110¼	132	.4
Polaroid Corp.	52.5	59.0	1.54	1.46	1.86	2.78	2.90	3.36	.20	261¾-163¼	183	.1
Technicolor, Inc.	23.2[1]	23.4[1]	.09[1]	.19[1]	.28	.12	.15	1.02	—	14¼- 6⅞	13	—

*—Based on latest dividend rate.

[1]—44 weeks ended Oct. 30.

[2]—Plus stock.

to the photographic field, but almost entirely to the family segment of that field. This equipment is clearly of a luxury character, vulnerable in any really serious recession. The chance of the development of a rival process can never be entirely disregarded. Already Eastman's new development, in which exposed movie film is printed for viewing within five or six seconds, is a case in point. Selling at some 60 times earnings, Polaroid stock remains distinctly attractive, but only for those who can afford considerable risks. The yield is purely nominal.

Bell & Howell Broadened By Merger

Another "comer" in the photographic industry has been **Bell & Howell,** whose rate of growth would look highly impressive against any other standard than comparison with Polaroid. Formerly engaged almost exclusively in the manufacture of cameras, projectors and related equipment for both still and motion reproduction, Bell & Howell broadened its base by merger with **Consolidated Electrodynamics,** an important electronics firm, a year ago. This union, which increased Bell's annual sales volume by about two thirds, was a logical one, as both components were broadly engaged in the dissemination of information and used processes that had much in common.

Bell enjoys a high reputation for its cameras, and is perhaps even better known for its projectors designed for both home and industrial use. One of the latest improvements it has offered is a slide projector that allows the focusing as well as changing of transparencies by remote control.

The future for this company also looks extremely bright. Again, however, the stock, while selling at a somewhat less astronomical basis than Polaroid, is extremely generously priced and allowance should be made for possible unexpected vicissitudes.

Other Companies

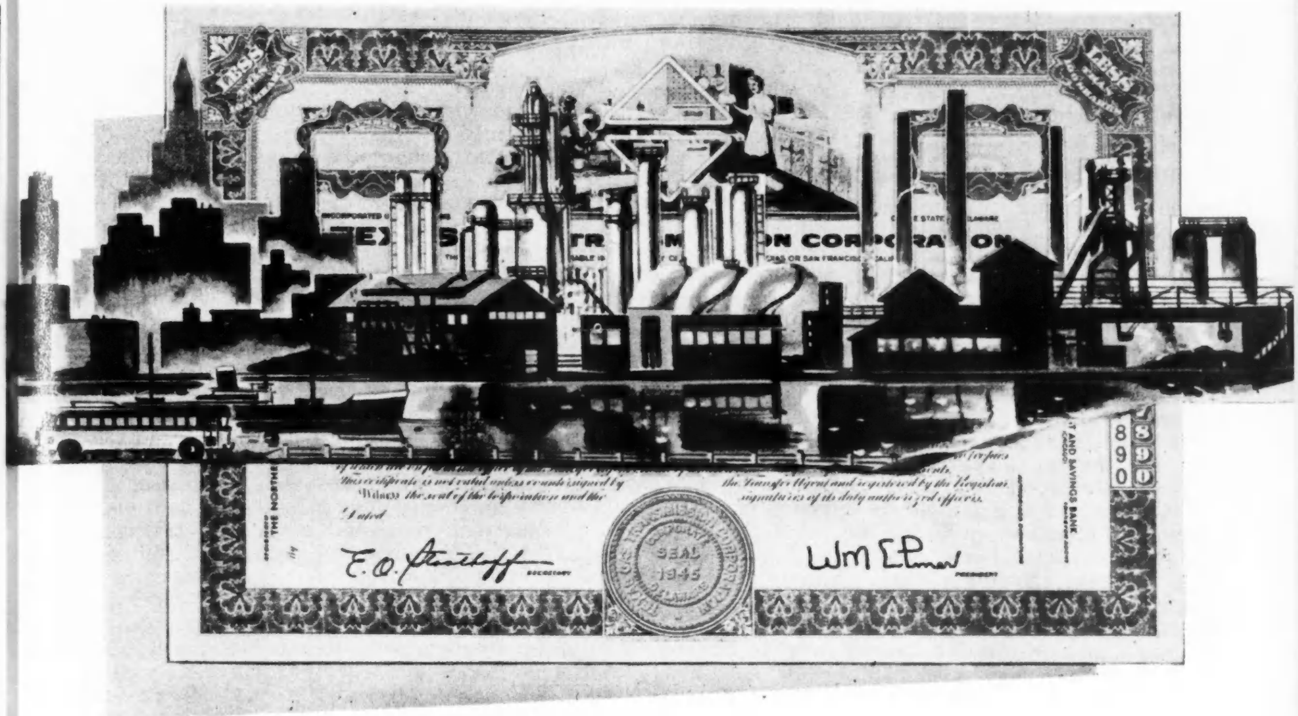
Fairchild Camera and Instrument, one of the offshoots of the fertile mind of its founder and chairman, **Sherman Fairchild,** differs from the other companies so far described in that its products primarily serve the military and industrial rather than the consumer market, although recently it began distributing certain amateur equipment. Specifically, it manufactures aerial mapping cameras, X-ray equipment, electronic photo engravers, radiation monitoring devices and precision instruments of many types. It is also directly engaged, through a number of subsidiaries, in aerial surveying over the entire world. As stated above, the stock recently dropped sharply following Eastman's introduction of a competitive system, but this still leaves it at some 45 times estimated 1960 earnings.

Other companies, engaged to a minor extent in the photographic field, include **Technicolor,** best known as the originator of the color motion picture process but which also operates laboratories for the development and printing of amateur film at New York and Los Angeles; **General Analine** through its Ansco division; **General Precision Equipment,** a subsidiary of which makes the well-known Graflex equipment for professionals and advanced amateurs; **General Telephone,** which, through the former Sylvania Electric, puts out the popular Argus cameras and related equipment; **Minnesota Mining,** which recently absorbed the Revere Camera Co., and now even **Longines-Wittnauer,** better known for its watches.

In still another category are new entrants into the photographic field, still very small, unlisted, and difficult to watch carefully, but some of which could become new Polaroids. Members of this group include **Dynacolor,** which is now processing a large minority of the Eastman Kodachrome film; **Perfect Photo,** engaged in the marketing and processing of higher quality film, one type of which can be finished either in color or black-and-white; and **Kalvar** and **Tech/Ops,** both of which have introduced competitive types of film which can be developed by the mere application of heat without all the nuisance of chemical baths. The Kalvar process seems most immediately adaptable for photocopying and other office use, while the Tech/Ops method offers the ultimate promise of very much finer reproductions at lower than present costs.

Thus, the photographic field is highly interesting, in more than a purely investment sense, with many promising new developments in sight and the market apparently as boundless as any amateur's imagination. But these opportunities are capitalized at extremely high ratios, while the risks may not be fully recognized. Eastman is solid; the other listed companies concentrating upon the photographic business should not be included by the ordinary investor without considerable examination of his own motives; and on the fringe is a large (and growing) group of small companies long both on opportunities and risks. Some speculators — as they must be termed — will lose their shirts in this field, others will make a killing, and all of us will shortly be looking at vastly improved snapshots of vacation scenes, children and family pets.

END



THE TREND-BEATERS

—*Appraising 1961 prospects for Companies reporting higher earnings*

By FREDERICK B. LYONS

ALTHOUGH 1960 is already in the record book, its memory lingers on. And for the investor who contemplates last year's earnings for the average industrial company or railroad, the recollection is none too pleasant. Corporate earnings in the forepart of 1960 were quite impressive, reflecting the spurt in business activity following the long steel strike. Unfortunately, the good news did not last long, and profits began to sag after the first quarter, growing progressively weaker as the year wore on. While final results for 1960 are still to be tallied, it is quite clear that corporate earnings will do no better than match those of the year before and in all probability will fall somewhat below the 24 billion dollar total of 1959.

Still, many substantial companies managed to swim against the tide last year by showing year-to-year gains in earnings. The question is, how did they do it? Were there special credits involved? Even more important, was this favorable showing part of a trend which will continue into 1961 and beyond? A close look at some of the companies in the favored category may turn up some illuminating answers.

A Better Year for General Mills

Among these trend-beaters was **General Mills**, the largest producer of flour, whose Gold Medal name is well known to housewives throughout the land. The company also has a line of packaged foods, including such famous products as Wheaties, Kix, Cheerios and other items in the cake and pie-mix line. Aside from these major activities, the company also dabbles in formula feeds, chemicals, testing equipment and electronic items, all of which make for a sufficiently broad product line. To be sure, the past record of General Mills has not been particularly inspiring as far as profits have been concerned; despite a good increase in sales, the earnings curve has been virtually flat. The immediate picture is brightening, however, with sales and earnings for the first half of the fiscal year ending May 31, 1961, up about 7% and 38% respectively, above those of the year before. Among the reasons for the good showing has been an increase in the company's flour grind, while the competitive pressures in the cake-mix field have lessened somewhat.

Internally, management has been tightening the screws, with particular emphasis upon improving plant and equipment maintenance programs. Based on the good start in the first half of its fiscal year, General Mills seems headed for higher earnings than last year's $1.46 a share. Will it be able in the years to come, to bring more of the larger revenue

dollars ahead, down to net? Although considerable internal progress is being made on cost reduction and also by the acquisition of new interests, this company is still heavily dependent upon agricultural commodities. Thus, earnings setbacks from time to time are likely to continue.

Superior Oil Earnings Larger than Show on Surface

Superior Oil, another "minority" company in the year just ended, is principally a producer of crude oil and natural gas with an outstanding record of finding reserves of these minerals over the years. Despite the fact that conservative accounting practices of charging intangible development and property write-offs against the profit and loss statement have tended to understate its carry-through, this company has done quite well in showing earnings gains over a long period of years. Net on the minute capitalization of 422,000 shares reached a record $51.19 for the fiscal year ended August 31, 1960. The favorable trend has continued into the new accounting period and for the three months ended November 30, gross operating income rose 25%, while share earnings about doubled.

This excellent showing stemmed mainly from an increase in crude production at the company's Mara Concession in Venezuela. Unless posted prices undergo marked deterioration in the months ahead, Superior will probably establish a new earnings peak this fiscal year. Notwithstanding the uncertainty in Venezuela, where leftist political influence is an adverse factor, this company should continue to fare well over the longer term. It is expected that the underlying asset value rather than reported earnings will remain the key to this situation, for the policy of retaining, and partially concealing, most of reported earnings is likely to prevail.

Shift from Consumer to Military Emphasis Pays Off

In the consumer and military electronics field **Magnavox** is one of the ranking companies. It manufactures television sets, radios, phonographs and electronic equipment and systems. Volume is about evenly divided among TV receivers, sound reproduction instruments and specialty electronic equipment. The company's postwar record has been fairly good, although competitive conditions in its consumer lines have prevented the compilation of an outstanding showing. In recent years Magnavox has begun to place more emphasis on its military business, and this is beginning to pay off. Thus, in 1960 the military and industrial electronics division was definitely on the upswing, while the consumer business showed very little gain. The happy result was an overall increase of about 16% in sales for 1960 over the 1959 level. Meanwhile, with margins widening on the military volume, profits scored an impressive gain of about 40% over those of the year before, as share net rose to about $2.75 from $1.99 for 1959.

The prospects for 1961 also look quite promising at this juncture, reflecting the large backlog of electronic orders on hand as well as new consumer goods items, such as a home organ, which are now ready for market. Looking beyond the immediate future, the company should continue to expand at a healthy rate, with the military and industrial electronics division providing the main spark. As time goes by and profits gains materialize, Magnavox stockholders should be rewarded in the form of higher dividends; a small hike in 1961 is a possibility.

Macy Benefits from Careful Cost Control

A well-known name in retailing, **R. H. Macy** operates department stores in New York City and five other spots throughout the country. Store facilities now comprise around 9 million square feet, of which about 60% is located in the two-state area of New York and New Jersey. Reflecting the strong upward trend in consumer disposable income, the company's sales curve has headed upward for many years. Profit margins, however, are characteristically narrow in this type of business, and have been further pinched by rising costs from time to time. The recent trend of margins since 1956 has been more favorable. Sales in the fiscal year ended July 31, 1960 rose 8% over those of the year before, while net rose about 12%. A major reason for the good showing was the addition of successful new branches in areas of considerable economic promise.

At the same time, management has continued to pay close attention to cost control by trying such new techniques as advanced methods of selling, the installation of improved merchandise-control systems and generally expanded expense control systems. The success of these efforts is evidenced by results for the thirteen weeks ended October 29, 1960 when sales and earnings rose 5% and 7% respectively over year-ago levels. Looking to the future, Macy's policy of expanding its branch operation is laying the basis for continued sales growth. Since the facilities now being erected will be capable of supporting much larger volume than is currently prevailing or anticipated for the near term, a leverage factor will come into play for Macy's earnings as these branches more nearly approach their potential in the future.

A Growth Utility

San Diego Gas & Electric supplies electricity and natural gas to the important San Diego area. In addition to a permanent Naval base, this region boasts aircraft and missile manufacturers, shipbuilding and electronics concerns. Of total revenues in 1959, electricity accounted for 71% and gas most of the balance. Residential sales provided 40% of the electricity revenues, commercial-industrial 51%, and agricultural 4%. Although the residential load is a little below average the company's markets are fairly well balanced and it is not likely to be in trouble if one of its large industrial or military segments should suffer a slowdown. In the twelve months ended October, 1960, revenues rose 13% above those of the year-earlier period, while net income kept pace. Earnings for the 1960 calendar year were probably about $1.90 a share, up from $1.66 in 1959. The strong growth trend in the local economy which was responsible for these results should continue to prevail in 1961 and over the longer term. Proposed rate increases on gas sales would be another constructive factor for the immediate future, if the two separate increases are approved. Dividends, now at the rate of $1.20 annually, are in an uptrend and a small hike late in 1961 is a fair possibility.

Twentieth Century-Fox Benefits from a Special Credit

A major producer and distributor of motion pictures, **Twentieth Century-Fox** also has many side

Companies Showing Sustantial Earnings Increases In Latest Reports

	Interim Reports: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Earnings Per Share 1959	Net Earnings Per Share 1960	Earnings Per Share 1958	Earnings Per Share 1959	Indic. Current Div. *	Price Range 1960-61	Recent Price	Div. Yield %
Beckman Instruments	$25.4[9]	$31.3[9]	4.8%	4.9%	$.93[9]	$1.12[9]	$1.30	$2.24	—	103¾- 62½	91	—
General Mills	265.9[1]	285.2[1]	1.6	2.0	.54[1]	.75[1]	2.26	1.46	$1.20	33½- 23⅞	33	3.6
Macy (R. H.) & Co.	476.6[2]	515.3[2]	1.6	1.7	3.80[2]	4.18[2]	3.76	4.07	2.00	48 - 37¾	45	4.4
Magnavox	107.0[3]	124.5[3]	4.3	5.2	1.99[3]	2.75[3]	1.19	1.99	1.00	55 - 31¾	48	2.0
Metro-Goldwyn-Mayer	27.6[4]	30.1[4]	7.4	7.2	.71[4]	.87[4]	2.91	3.83	1.60	45¼- 24⅞	44	3.6
San Diego Gas & Electric	70.2[5]	79.6[5]	12.7	12.4	1.69[5]	1.91[5]	1.32	1.66	1.20	34½- 24⅜	33	3.6
Standard Oil of Calif.	1,336.3[6]	1,434.4[6]	13.4	13.8	2.85[6]	3.15[6]	4.08	4.01	2.00	51⅛- 40	49	4.0
Superior Oil (of Calif.)	28.2[7]	35.3[7]	10.3	15.9	6.92[7]	13.32[7]	45.84	51.19	7.50	1348 -855	1235	.6
Tennessee Gas Transm.	453.1[5]	547.3[5]	11.1	11.2	1.09[5]	1.36[5]	1.23	1.29	1.12[8]	25 - 20¼	25	4.4
Twentieth Century-Fox Film	85.9[6]	86.6[6]	3.4	4.3	1.25[6]	1.57[6]	3.31	1.78	1.60	44½- 30	42	3.8

*—Based on latest dividend rate.
1—6 months ended Nov. 30.
2—52 weeks ended Oct. 31.
3—Year ended Dec. 31.
4—12 weeks ended Nov. 24.
5—12 months ended Nov. 30.
6—9 months ended Nov. 30.
7—Quarter ended Nov. 30.
8—Plus stock.
9—6 months ended Dec. 31; 1960 results are approximate.

interests, including the production and leasing of TV films, participation in foreign movie theatres, film processing and phonograph records. In a completely different tangent, the company also receives income from oil and gas recovered from its properties in Los Angeles. While a good portion of its valuable film library has already been leased, the company retains a large part of its post-1948 films, which presumably will also be sold or leased on a favorable basis some time in the future. Twentieth Century's earnings record has been rather erratic in the postwar period, reflecting the basic instability of the movie business. Recent results appear more promising, but this is somewhat deceptive. For the thirty-nine weeks ended September 24, gross rose about 1% over that of the year before. After United States and foreign income taxes accrued at a higher rate, profits from operations were no more than a whisper ahead of those in the like 1959 period. But with the proceeds from a life insurance policy thrown into the picture, overall earnings on the common finally rose to $1.57 from $1.25. Management has in no way attempted to mislead the shareholders, since income is reported both before and after the special item mentioned. The immediate outlook for the company appears to be favorable, but the fickle public is not entirely predictable as far as likes and dislikes for movies are concerned. Earnings improvement in 1961, therefore, would not necessarily presage any lasting trend.

"Blockbusters" Make Money for MGM

Another kingpin in the movie industry, **Metro-Goldwyn-Mayer,** likewise engages in other activities. Rentals from the production and distribution of films and foreign theater operations accounted for 76% of revenues in fiscal 1960, while licensing of pre-1949 films, production of TV film series and sale of phonograph records were other sources of income. After a low point in operations was touched in 1958, steady improvement has been seen. Although, in the fiscal year ended August 31, 1960, revenues were about unchanged from those of the year before, management's cost-cutting efforts produced an increase of nearly 25% in net income. These favorable results have also carried over into the 1960-61 accounting period, with gross and net up 12% and 17% respectively for the initial interim period.

The balance of the current year will be favorably influenced by the impact of several "blockbuster" films. **Ben-Hur,** for example, is meeting with excellent public reception and should be a fine money-maker for MGM. Larger receipts, superimposed upon the tight cost structure should produce impressive earnings figures for fiscal 1961. While it is unrealistic to look too far ahead in this type of business, several plus factors are clearly in evidence for MGM. From time to time the company has acquired its own shares and may conceivably do so again in the future. Again, the company's library of post-1948 films has not yet been released to television and, like wine, these pictures could become more valuable with the passage of time.

Considerable Recovery for Standard of California

An integrated giant particularly important on the West Coast, **Standard of California** also conducts domestic operations in the area east of the Rockies, and is represented abroad in South America, the Caribbean, the Middle East and the Far East. Extensive reserves are held in the Middle East through one-third owned **Aramco.** The company's postwar record has been impressive; growth in share earnings has kept pace with the expansion in gross operating income. Earnings appear to be in an upward trend again, following two years of hesitation in 1958 and 1959. For the first three quarters of 1960, sales experienced about a 5% gain over year-earlier totals. Profit margins widened and with the benefit of larger dividend income, net rose some 10%. For 1960 as a whole, it is estimated that share earnings amounted to around $4.25, up from $4.01 the year before. In 1961 the company's domestic operations may well continue to improve, reflecting both better product *(Please turn to page 528)*

FOR PROFIT AND INCOME

A Puzzling Divergence

January has been, without a doubt, an unfavorable month—in a business sense. It is not so much that things have gotten worse as that everyone has finally been forced to admit that we are in a genuine recession. The steel operating rate—no longer to be officially published by the industry—shows no sign of recovery, copper dropped 1¢ a pound, and reports of lay-offs and factory closings are becoming more frequent.

Yet, somehow, stockbuyers do not seem to read the newspapers. At least, they have apparently paid little attention to factors such as those just enumerated, while prices have been climbing almost steadily, and on heavier volume, for nearly two months. Well, you can't argue with history. And there is an explanation for the recent buoyancy; the New Administration is now taking shape more concretely, and it no longer looks quite as moderate as it did right after election. The various surveys and reports now being turned in by Kennedy's advisers call for rather massive doses of deficit spending, aid to depressed areas, and various artificial stimulants. Even the outgoing regime's order banning gold holding abroad might be regarded as a forerunner of devaluation. In brief, a new battle between inflation and deflation is looming up, and many are evidently betting that the former will win.

Still, the arguments on the other side—we will not repeat them—are impressive. Stocks are certainly high by any objective analysis. The creation, rather than the abandonment, of moderate cash-equivalent reserves would seem the wiser course at this point.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Rohr Aircraft Corp.	Quar. Oct. 31	$ .53	$ .24
Addressograph-Multigraph	12 mos. Oct. 31	2.00	1.68
Kimberly-Clark	Quar. Oct. 31	.96	.86
Tennessee Corp.	Quar. Sept. 30	.62	.51
Texas Gulf Producing	9 mos. Sept. 30	.85	.71
American Stores	26 weeks Oct. 1	2.78	2.39
Korvett (E.J.) Inc.	13 weeks Oct. 30	.37	.13
Braniff Airways, Inc.	Quar. Sept. 30	.22	.10
Litton Industries, Inc.	Quar. Oct. 31	.50	.40
Northern Natural Gas	9 mos. Sept. 30	1.69	1.38

Opportunities in Piggyback

One bright area during the year just ended was piggyback—or the movement of highway trailers on railroad flatcars. Loading of this character advanced 35% in 1960 and have reached a level where they are both beginning to make a tangible contribution to the railroads and to frighten the truckers.

This promising development can be participated in directly by investment in **United States**

Freight Co., the leading domestic forwarder. The function of a forwarder is to pick up and consolidate smaller packages for shipment by the carload or truckload; any improvement in transportation methods offers it an immediate advantage. At the moment piggyback should enable U.S. Freight both to cut its costs and to compete more effectively with truckers. The company's gross earnings have already more than doubled during the past decade, and this rate of growth is likely even to be accelerated.

A Firmer Foundation for Cement

Cement stocks have been a distinct disappointment to their holders over a long period of three or four years. Problems have included the 30% increase in capacity in 1955-59, the slow start in the highway program and, most recently, the adverse ruling on depletion which saddled the major companies with heavy retroactive taxes (equivalent to $1.45 a share for Lone Star, for example). Now things do look better. Highway construction is always the first public works program on the tip of everyone's tongue, and we may expect the Kennedy administration to push this as a principal anti-recession measure. Labor costs are relatively small in the cement industry, and the weight of the product strictly limits foreign competition. Some of the better companies, among which we would rank **Lone Star, Ideal** and **Penn-Dixie,** have now attained a firmer foundation than for a number of years past.

Excess Capacity

Other industries will continue to be plagued by the heavy capacity that was built up in the final phase of the great post-war boom which (we think) came to an end in 1959. Electrical equipment has already hit the skids, and such favorites as **General Electric** and **Radio Corporation** do not even look particularly attractive at prices 30% below their 1960 highs. The situation in steel requires no comment, and **chemicals, paper** and most varieties of **machinery** are likewise in oversupply. The usual answer to this problem on the part of companies affected is diversification, and yet this often merely extends the excess capacity to new fields.

The oils, particularly the domestics, do look better now, although President Spaght of Shell recently cautioned investors against too much emphasis on the decline in inventories. The tremendous crude reserves and surplus of refining capacity, he pointed out, make early relief unlikely.

Corporate Transformations

With the changing business climate, corporations, if they are to survive, sometimes find it necessary to change their sphere of operation entirely. Some, like **Glen Alden, Grace Chemical** or **Minneapolis & St. Louis Ry.,** do this abruptly; others carry the process on so gradually that their transformation almost passes unnoticed. A case in point of the latter method is **Armour,** which is now fully half a chemical company. To be sure, its chemical activities did evolve rather logically out of its effort to utilize every residue of its meat packing business to the nth degree. Armour now makes Dial Soap, which is gradually expanding its share of the market, pharmaceuticals and fertilizers. Even the packing business has been drastically reorganized, slaughtering highly mechanized and operations concentrated for a higher utilization of total capacity. These changes may be symbolized concretely by the company's complete withdrawal from the Chicago Stock Yards, for so many years the crowded, colorful center of the industry. Armour's 1960 earnings of $3.10 a share covered the new, $1.40 dividend rate more than comfortably, and also represent a moderate price/earnings ratio (about 13 times) in the current market. Speculative features cannot be disregarded and debt, although reduced $8 million last year, remains high, but the progress which has already been made justifies hope for the future.

Banks May Be Unromantic, But . . .

Somehow, bank stocks never seem to capture the investor's imagination. For one reason, probably; very few of them are listed. Again, banks have such an austere appearance — although they have recently been working hard to change their "public image"—that everyone automatically shies away from them. Finally, their operations—the creation of tangible dollars that can be loaned out of some vague method of multiplying deposits—have an air of mystery about them. Just the same, banks do have several attractive investment attributes, among them relatively liberal yields and high earnings stability. Loan volume, upon which earnings are normally primarily dependent. may decline this year because of the recession, but investments offer almost comparable yields at present.

The banks would, to be sure, be badly hurt by any return to excessively low interest rates, but this seems extremely unlikely, even though the Democratic campaign placed some emphasis upon easy money. Many factors rule out any sharp drop in money rates. On balance the banks would probably benefit from any inflation that might ensue; both their assets and obligations are in dollars, but they would earn more from the increased velocity of money. The tendency to break down the restrictions against branch banking, as by the New York State law passed last March, has increased opportunities for

(Please turn to page 530)

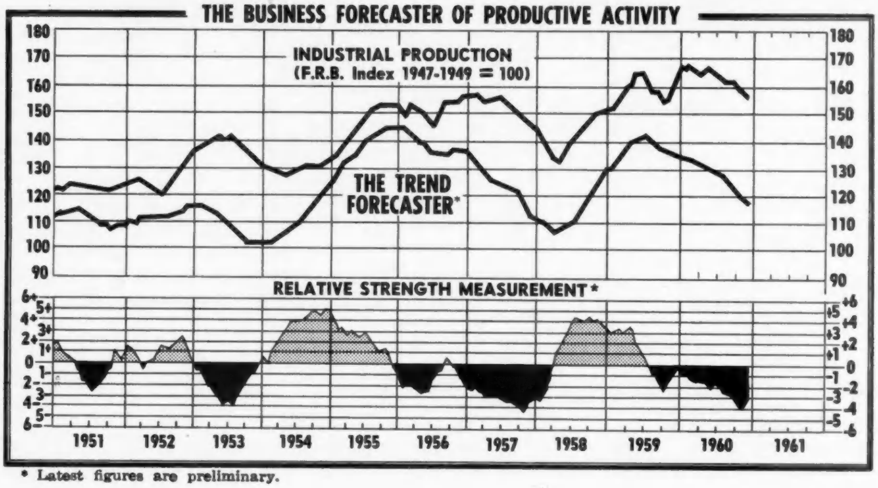
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Chicago Yellow Cab	Quar. Sept. 30	$ .03	$ .10
North American Aviation	Quar. Sept. 30	.84	1.08
Reliable Stores Corp.	Quar. Oct. 31	.36	.43
Ampex Corp.	6 mos. Oct. 31	.05	.25
U. S. Plywood	Quar. Oct. 31	.75	1.33
Allied Laboratories, Inc.	9 mos. Sept. 30	1.10	2.04
Reed Roller Bit	Quar. Sept. 30	.04	.31
Caterpillar Tractor	10 mos. Oct. 31	1.31	1.59
Mc Graw-Edison Co.	9 mos. Sept. 30	1.86	2.02
Associates Investment	9 mos. Sept. 30	3.37	3.84

the Business

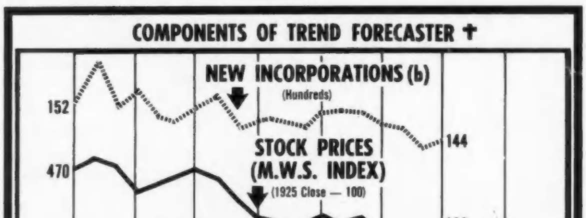
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Latest available figures on the components of the Trend Forecaster show that some of the indicators have improved in the most recent month, although it is not clear as yet whether these are merely temporary fluctuations or the beginning of a trend. New incorporations, stock prices, nonresidential construction contract awards and business failures (inverted) all did better in the latest month, with the last named registering a substantial gain. Other components, however, were still declining. Housing starts fell to a new low, hours worked were lower (even after taking account of the effect of snowstorms during the period), new orders were at their low of the year as of November (latest month for which figures are available) and raw industrial commodity prices were at the lowest level seen in some years.

Although the Relative Strength Measure improved slightly in December, on the basis of preliminary estimates, it is still below the minus 3 level. Further improvement would be required before a signal of coming business betterment is given.

Analyst

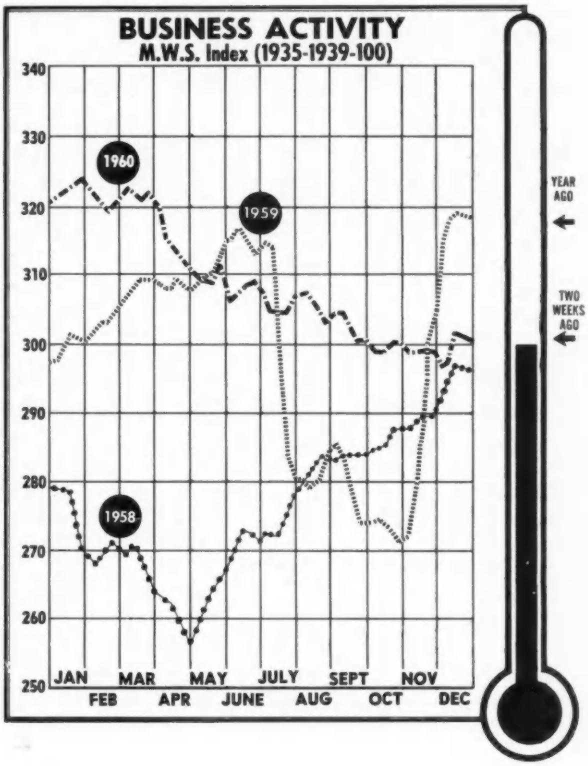
CONCLUSIONS IN BRIEF

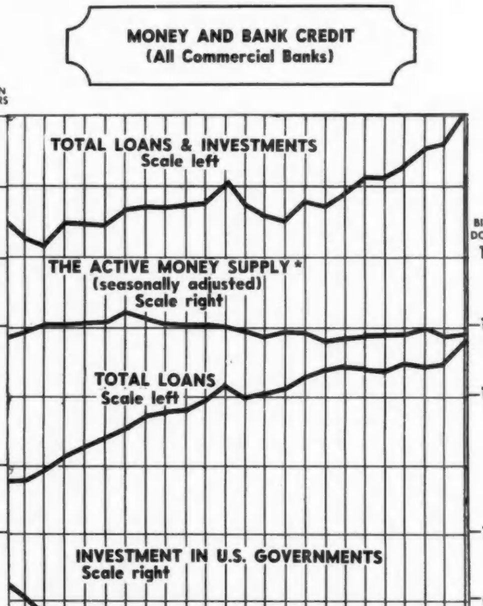
PRODUCTION — The decline in output picked up speed in December, with manufacturers intent on reducing inventories in the face of lackadaisical consumer demand. Further output cuts are to be expected this winter, although developments should be watched closely for signs of a possible bottoming-out process.

TRADE — Retail sales in general are still slipping slowly, with demand for autos especially disappointing. Some further decline in over-all sales lies ahead, as the public reacts to cuts in employment and payrolls.

MONEY & CREDIT — Fears that the new Administration will bring heavy spending and budget deficits has shaken Treasury bond prices to some extent. The trend in both the bond market and interest rates will depend greatly on the policies of the new regime, which should be revealed more clearly in the near future.

COMMODITIES — Manufacturers and retailers are still intent on moving heavy stocks of finished goods by selective price cutting. Raw material prices are now improving however, and should be relatively firm in the months ahead.





*Demand deposits of all banks plus currency outside the banks.

A student of the effects of mass psychology on business should find a recent development in that field both interesting and instructive. We refer to the extensive and growing optimism among both economists and laymen regarding the outlook, while the economy continues to move lower on a broad front.

Although a high degree of unanimity of opinion regarding the future has usually turned out to be mistaken, the bullish contingent is not lacking in arguments designed to justify its position.

On the business front, it is widely assumed that we are going through a mild adjustment, not much different from the correction of 1957-1958, and there are widespread expectations that an upturn will start around the middle of this year. It is also maintained that business will receive substantial support in the months ahead, from strong consumer income and spending for nondurables and services, increased Government outlays and easier credit. Furthermore, recent inventory liquidation is regarded as an important constructive factor, for reduction of stockpiles cannot go on forever and a low level of goods on shelves should spur restocking, thus giving business an important lift.

Although the arguments for a short and practically painless readjustment may appear convincing and may even be realized in toto, they do not tell the whole story by any means. In the first place, there is little historical warrant for assuming that the current recession will be little more than a car-

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Essential Statistics

THE MONTHLY TREND

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	156	159	165
Durable Goods Mfr.	1947-'9-100	Dec.	156	160	174
Nondurable Goods Mfr.	1947-'9-100	Dec.	157	158	158
Mining	1947-'9-100	Dec.	126	128	130
RETAIL SALES*	$ Billions	Dec.	18.4	18.6	17.5
Durable Goods	$ Billions	Dec.	6.0	6.0	5.3
Nondurable Goods	$ Billions	Dec.	12.4	12.5	12.2
Dep't Store Sales	1947-'9-100	Dec.	146	142	146
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	29.0	29.2	29.2
Durable Goods	$ Billions	Nov.	13.5	13.7	13.7
Nondurable Goods	$ Billions	Nov.	15.5	15.5	15.5
Shipments*	$ Billions	Nov.	29.2	29.6	29.0
Durable Goods	$ Billions	Nov.	13.8	14.1	13.5
Nondurable Goods	$ Billions	Nov.	15.5	15.5	15.5
BUSINESS INVENTORIES, END. MO.*	$ Billions	Nov.	92.8	92.9	88.4
Manufacturers'	$ Billions	Nov.	54.1	54.4	51.6
Wholesalers'	$ Billions	Nov.	13.2	13.2	12.6
Retailers'	$ Billions	Nov.	25.6	25.4	24.2
Dept. Store Stocks	1947-'9-100	Nov.	169	167	160
CONSTRUCTION TOTAL—t	$ Billions	Dec.	54.8	55.0	55.4
Private	$ Billions	Dec.	38.9	38.7	40.1
Residential	$ Billions	Dec.	22.0	21.5	23.9
All Other	$ Billions	Dec.	16.9	17.2	16.2
Housing Starts*—a	Thousands	Dec.	990	1212	1451
Contract Awards, Residential—b	$ Millions	Nov.	1253	1390	1092
All Other—b	$ Millions	Nov.	1633	1929	1280
EMPLOYMENT					
Total Civilian	Millions	Dec.	66.0	67.2	65.7
Non-farm*	Millions	Dec.	52.5	52.8	52.7
Government*	Millions	Dec.	8.6	8.5	8.3
Trade*	Millions	Dec.	11.6	11.6	11.5
Factory*	Millions	Dec.	11.7	12.0	12.4
Hours Worked	Hours	Dec.	38.8	39.2	40.6
Hourly Earnings	Dollars	Dec.	2.32	2.30	2.27
Weekly Earnings	Dollars	Dec.	90.02	90.16	92.16
PERSONAL INCOME*	$ Billions	Nov.	410	410	389
Wages & Salaries	$ Billions	Nov.	274	275	261
Proprietors' Incomes	$ Billions	Nov.	61	61	59
Interest & Dividends	$ Billions	Nov.	42	42	38
Transfer Payments	$ Billions	Nov.	30	30	28
Farm Income	$ Billions	Nov.	17	17	15
CONSUMER PRICES	1947-'9-100	Nov.	127.4	127.3	125.6
Food	1947-'9-100	Nov.	121.1	120.9	117.9
Clothing	1947-'9-100	Nov.	110.7	111.0	109.4
Housing	1947-'9-100	Nov.	132.1	132.2	130.4
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	110.8	110.6	112.0
Bank Debits*—g	$ Billions	Dec.	94.8	98.4	93.7
Business Loans Outstanding—c	$ Billions	Dec.	33.0	32.8	31.4
Instalment Credit Extended*	$ Billions	Nov.	4.1	4.1	4.2
Instalment Credit Repaid*	$ Billions	Nov.	3.9	4.0	3.7
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	6.3	2.8	5.9
Budget Expenditures	$ Billions	Nov.	6.8	6.8	6.6
Defense Expenditures	$ Billions	Nov.	3.9	3.7	3.7
Surplus (Def) cum from 7/1	$ Billions	Nov.	(5.7)	(5.2)	(6.4)

PRESENT POSITION AND OUTLOOK

bon copy of previous post-war adjustments. The very fact that the 1958-1960 recovery differed markedly from its predecessors provides an indication that the current setback will also develop along lines of its own. With regard to the factors on which many prognosticators are relying for a bolstering influence, there are also several considerations to keep in mind. In the case of consumer demand, recent figures on their spending indicate that the public has been reducing its over-all expenditures, in contrast to indicated plans for increased future buying which were "revealed" by consumer surveys taken in October and November of last year. Although outlays for nondurables and services may hold up relatively well, this could be at the expense of further cuts in demand for durables. Cautiousness on the part of the consumer is not surprising in view of the slump in employment in recent weeks, which undoubtedly results in reduced payrolls. And reports of sizeable numbers of people out of jobs certainly provide no boost to sentiment.

As regards inventories, they were off by only $100 million in November and at this rate of reduction, it would take many months to make any significant dent in the $92.6 billion worth of goods now on businessmen's shelves. Moreover, the fact that sales dropped much more rapidly than inventories in recent months, with a concomitant rise in the inventory-sales ratio, indicates that the point where stockpiles will have been reduced to optimum levels may still be far away.

This leaves us with the role of Government spending to consider and there is no doubt that this sector will play a key role in determining the course of business activity. Government outlays, both Federal and local, are scheduled to rise by about $6 billion this year, on the basis of existing commitments, but there are no indications as yet as to how much more the new Administration intends to spend on widespread increases in welfare legislation that it favors, plus outlays in a stronger defense system and various measures to counteract the recession if business continues to decline.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter III	1960 Quarter II	1960 Quarter I	1959 Quarter III
GROSS NATIONAL PRODUCT	503.0	505.0	501.3	481.4
Personal Consumption	328.5	329.0	323.3	316.0
Private Domestic Invest.	70.5	75.5	79.3	67.5
Net Exports	3.5	2.0	1.2	—0.2
Government Purchases	100.5	98.6	97.5	98.1
Federal	52.5	51.7	51.8	53.6
State & Local	48.0	46.9	45.7	44.5
PERSONAL INCOME	408.0	404.2	396.2	384.8
Tax & Nontax Payments	50.5	49.9	49.2	46.3
Disposable Income	357.5	354.3	347.0	338.5
Consumption Expenditures	328.5	329.0	323.3	316.0
Personal Saving—d	29.0	25.2	23.7	22.5
CORPORATE PRE-TAX PROFITS		45.7	48.8	45.3
Corporate Taxes		22.3	23.8	22.3
Corporate Net Profit		23.4	25.0	22.9
Dividend Payments	14.0	13.9	13.9	13.6
Retained Earnings		9.5	11.1	9.3
PLANT & EQUIPMENT OUTLAYS	36.9	36.3	35.2	33.4

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 7	300.5	299.7	301.6
MWS Index—Per capita*	1935-'9-100	Jan. 7	215.6	215.0	224.4
Steel Production Index*	1957-'9-100	Jan. 7	73.1	59.2	145.7
Auto and Truck Production	Thousands	Jan. 14	140	97	214
Paperboard Production	Thousand Tons	Jan. 7	167	164	261
Paperboard New Orders	Thousand Tons	Jan. 7	207	232	294
Electric Power Output*	1947-'49-100	Jan. 7	277.7	277.5	264.5
Freight Carloadings	Thousand Cars	Jan. 7	439	406	592
Engineerings Constr. Awards	$ Millions	Jan. 12	624	407	416
Department Store Sales	1947-'9-100	Jan. 7	118	117	132
Demand Deposits—c	$ Billions	Jan. 4	60.8	61.5	62.0
Business Failure—s	Number	Jan. 5	265	276	242

PRESENT POSITION AND OUTLOOK

If a large Federal budget deficit is actually in the cards, the economy might receive a strong although probably temporary stimulus. However, we do not as yet know what steps President Kennedy will take to resolve the serious and complex problems that now confront us. There are reliable reports that he continues to be gravely concerned about our deteriorating position vis-a-vis the Communist World and intends to rouse the nation to greater and more strenuous efforts. This would undoubtedly involve increased Federal spending, but the means of financing it are still unclear. In the face of a sizeable deficit in our balance of international payments, a continuing loss of gold and a world that is worried about the soundness of the dollar, the President may be obliged to discourage inflationary steps. In the circumstances, he may well decide that increased spending for defense and other programs will put our people to work and that a balanced budget via increased taxes will save the dollar. In that case, we are likely to hear a great deal more about "blood, sweat and tears" in the months ahead, rather than designs for a painless road to prosperity.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Jan.6	1960 Jan. 13
Composite Average	482.5	410.9	454.7	468.2
[illegible] Agricultural Implements	439.4	346.4	420.1	439.4H
[illegible] Air Cond. ('53 Cl.—100)	130.1	105.8	124.9	127.4
9 Aircraft ('27 Cl.—100)	1136.2	861.9	1114.8	1136.2H
7 Airlines ('27 Cl.—100)	1044.6	736.7	854.4	919.4
4 Aluminum ('53 Cl.—100)	521.3	354.5	405.4	401.4
5 Amusements	318.7	209.3	312.5	318.7H
5 Automobile Accessories	531.1	401.0	418.6	434.8
5 Automobiles	157.0	90.8	92.6	97.2
3 Baking ('26 Cl.—100)	39.8	34.9	37.4	38.2
4 Business Machines	1422.6	1159.1	1317.0	1356.2
6 Chemicals	809.6	657.3	745.5	767.9
4 Coal Mining	36.0	27.2	29.8	30.9
4 Communications	234.4	199.9	220.5	222.7
9 Construction	181.0	143.3	177.7	181.0H
5 Container	1064.7	824.6	883.7	918.4
5 Copper Mining	347.6	275.4	291.9	294.7
2 Dairy Products	217.8	146.8	201.9	203.9
5 Department Stores	156.7	135.2	151.0	151.0
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	387.3	395.1
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	340.6	340.6
3 Finance Companies	826.8	648.8	802.7	826.8H
5 Food Brands	579.9	419.3	557.6	568.8
3 Food Stores	270.8	232.1	255.2	257.8

(Nov. 14, 1936 Cl.—100)	High	Low	Jan.6	Jan. 13
High Priced Stocks	299.9	262.7	288.5	293.3
Low Priced Stocks	653.8	527.6	578.6	605.1
5 Gold Mining	1226.0	810.8	1182.2	1226.0H
4 Investment Trusts	170.6	136.5	144.1	148.3
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1208.6	1243.8
7 Machinery	515.9	402.9	506.2	515.9H
3 Mail Order	446.1	364.2	409.2	417.3
4 Meat Packing	286.8	223.9	262.0	267.2
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	147.4	153.0
9 Metals, Miscellaneous	399.1	313.3	352.5	362.6
4 Paper	1237.1	867.3	1011.6	1001.7
16 Petroleum	742.9	609.0	714.3	742.9H
16 Public Utilities	408.3	341.6	400.3	408.3H
6 Railroad Equipment	99.8	75.8	83.8	87.8
18 Railroads	70.1	49.9	54.5	57.1
3 Soft Drinks	965.4	690.3	946.7	965.4H
11 Steel & Iron	464.9	325.4	359.8	366.6
4 Sugar	100.9	63.0	78.8	86.3
2 Sulphur	726.6	563.1	726.6	705.4
11 TV & Electron. ('27—100)	119.4	86.8	98.5	101.4
5 Textiles	233.0	183.3	198.2	209.8
3 Tires & Rubber	255.9	170.6	184.6	186.4
5 Tobacco	234.1	182.5	231.8	234.1H
3 Variety Stores	382.1	349.3	356.5	363.6
14 Unclassif'd ('49 Cl.—100)	295.1	224.0	241.5	255.6

H—New High for 1960.

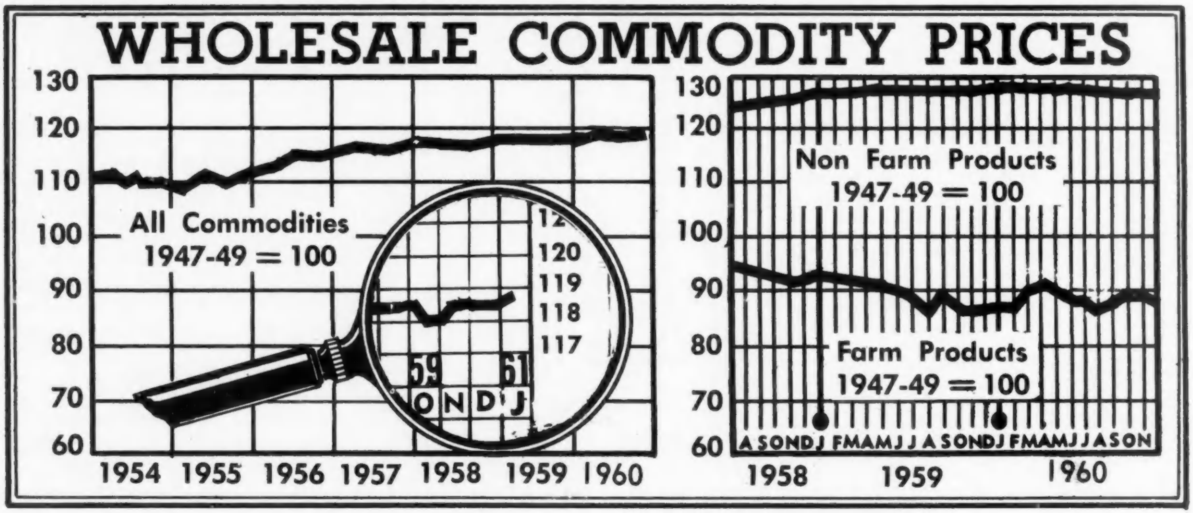
Trend of Commodities

SPOT MARKETS—Sensitive commodities moved higher in the two weeks ending January 13, in a sharp rebound from the low levels reached late last year. The BLS daily index of 22 leading commodities rose 1.7% during the period, with foods and raw industrial materials both in demand. In the latter group, burlap, hides, rubber, steel scrap, tallow and wool tops all advanced. Most metals were backward, however, with copper scrap, tin and zinc in the minus column.

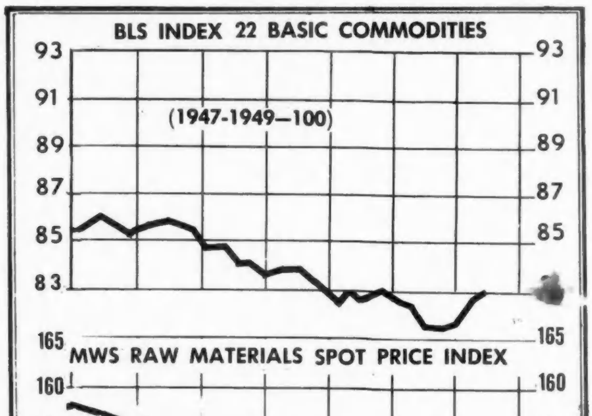
Among the rank and file of commodities, some improvement also took place. The BLS comprehensive weekly wholesale price index rose 0.2%, with foods and the index of other non-farm commodities both moving higher. There has been further price cutting of finished goods but this has not been reflected in the over-all price index to any extent.

FUTURES MARKETS—Future prices were pretty mixed as the new year got under way. Most domestic farm products were better in the two weeks ending January 13, but raw industrial materials and imported goods showed signs of weakness. In the plus column were wheat, corn, oats, soybeans, lard and wool, while lower levels were reached by rye, cotton, coffee, cocoa, copper, hides and rubber.

Wheat futures were strong in the period under review, with the May option adding 3½ cents to close at 208¼. A high level of exports and favorable loan figures combined to bring strong buying into the market. On the basis of current estimates, it looks as though some tightness may develop in the May future unless farmers withdraw wheat from the loan program.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 10	119.8	119.6	119.3	60.2
Farm Products	Jan. 10	89.7	89.7	86.5	51.0
Non-Farm Products	Jan. 10	128.0	127.9	128.8	67.0
22 Sensitive Commodities	Jan. 13	83.1	81.7	84.6	53.0
9 Foods	Jan. 13	77.5	75.8	72.1	46.5
13 Raw Ind'l. Materials	Jan. 13	87.0	85.9	94.3	58.3
5 Metals	Jan. 13	85.2	85.1	99.8	54.6
4 Textiles	Jan. 13	81.6	80.4	81.2	56.3



MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1

1961 Outlook Varies For Major Industries

(Continued from page 492)

recover, their defensive qualities would not be too attractive, but in periods of doubt and distress, they are likely to remain in favor.

Unexciting Outlook for Paper

The paper industry came through 1960 with fewer scars than many other groups, but it still had no banners to wave. The high level of consumer goods spending bolstered total demand for paper products, especially in the packaging field, but the net result was only to keep production at just about the same level as in 1959.

The disappointment stems not so much from the total production figures as from the failure of 1960 to witness progress in the greater utilization of the industry's current tremendous capacity. Operations failed to use more than 90% of total capacity available, and for many companies the figure was far less.

Thus, the costs associated with idle facilities took their toll on earnings, while higher labor and transportation expenses cut even further into net. The result was lower profit margins despite spirited cost-cutting programs. To add to the woes, demand was not strong enough in most important paper lines to justify price increases.

In the year ahead, these problems will not disappear. Although every step toward greater utilization of existing capacity brings the industry that much closer to adequate profitability, a further 4% increase in scheduled capacity for 1961 complicates the picture. Still, the normal increase in demand for paper products, coupled with cost reductions and possible price increases in some key lines, may help the situation. In any event, the poor companies appear to have unexciting prospects in 1961 — which will probably dampen the enthusiasm for paper stocks.

Textiles Have Avoided Inventory Overbuilding

After a banner year in 1969, and a healthy start in 1960, the recession hit textile companies hard in the latter half of the year. Demand fell off sharply, orders were cut to the bone and profits fell abruptly. To make matters worse, the price structure has given grounds, offsetting the hard-won gains of the year before.

Nevertheless, this recession may not hit the textile industry as painfully or as long as previous economic contractions. The companies acted quicker this time to cut back production, thereby avoiding the catastrophic overbuilding of inventories that have hurt so much in the past. Hence, when demand begins to pick up again no heavy burden of unsold goods will be overhanging the market and keeping downward pressure on prices.

The big question is, of course, whether demand will pick up again by mid-year. There can be no sure-fire prediction, but the continued high level of consumer income justifies some hope. Textile stocks, however, remain highly speculative.

Profitable Decade Ahead for Merchandisers

Department store stocks were star performers in the market in 1960—and with good reason. For despite bad winter storms in the early months, a cool summer which cut the demand for beach togs and the like, and finally the spending caution that accompanied rising unemployment later in the year, earnings were still strong.

In effect, the industry proved that it is vigorous and growing, and has laid the groundwork for meeting the big consumer demands that will develop as the Sixties unfold. As a matter of fact, if there is anything wrong with the picture it is only that the stocks have been so strong, both because of their defensive qualities and because of their healthy outlook in the years ahead, that many have already discounted their rosy future.

The department stores, however, were not the only merchandisers to enjoy a good year in 1960. The mail order houses, making effective use of credit for the first time on a large scale, also scored impressive gains and appear poised for further growth in the years ahead. These companies, incidentally, are also following in the path laid down by Sears-Roebuck, by beginning to enter new fields such as insurance and suburban stores.

The demand for goods by a growing population should spark a profitable decade for the merchandisers. Competition, although severe, has served to sharpen the abilities of management and has led to greater efficiencies. The bigger and sounder companies, though over-priced at the moment, offer considerable appeal to conservative investors.

END

Is Khruschchev's Disarmament Suggestion A Bluff?

(Continued from page 501)

usually couched in terms of catching up with, or surpassing the United States in the production of various commodities. By 1972 the Russians plan to reach U.S. 1957 levels in the production of steel, electric power and petroleum. In some cases, such as cement and coal production, they plan to exceed our production by as much as one hundred per cent.

►**A recognized authority has compiled various estimates of the time it will take Russia to equal our over-all industrial production. The highest number mentioned is thirty-two years!**

The point is that the race will never be won by Russia if it switches over any substantial proportion of its economic resources to the production of consumer goods.

►Although a changeover to the production of hard goods would require a major retooling.

►**In the meantime the Soviet economy would be stagnant.**

►**The political implications of a major change in policy must not be overlooked, either.**

The Soviet people have been kept in bondage through the threat of "capitalist encirclement", and the oft-reiterated necessity to outproduce the capitalist countries in the materials of war. A sudden disarmament would deprive the Russian government of its primary reason for being, and all excuse for totalitarian repression. I would venture to predict that within a year after such a disarmament the Soviet

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Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

American Seating Co.

"About six years ago, I purchased 100 shares of American Seating Co. at 34 and I am troubled by the fact that the stock is still selling close to the same price, while most other stocks have shown substantial advances. I bought the stock of this company both because it is located in my home town and also in anticipation of higher earnings from the rising birth rate and increase in school population. Please give me your valuable advice, as you have done so many times in the past, as to whether I should continue to hold or sell this issue".

A.C., Grand Rapids, Michigan

American Seating Co. is the largest manufacturer of public seating equipment, for the school, recreation, church and transportation fields. Classroom equipment includes a complete line of seats, desks, chairs and tables, and represents the largest share of the company's sales volume. Also, the company is an important producer of theatre seats, church pews and furniture, seating for stadiums, public buildings and auditoriums, and for buses. The company produces a substantial amount of school supplies, including paper, pencils, chalkboards and other items. It has recently introduced an electronic learning center and a line of hospital room furniture. The plants of the company are located in Grand Rapids, Michigan. Operations are primarily metalworking, with woodworking facilities used mainly in the production of church products. Last June, the company announced that it would enter the field of manufacturing a full line of patient room furniture for the hospital market, with initial shipments scheduled for the first quarter of 1961.

In recent years, sales have failed to show a well-defined growth trend. The volume of sales rose from $36,400,000 in 1954 to $40,500,000 in 1956, but failed to equal the latter figure in subsequent years. Similarly, earnings rose from $2.52 per share in 1954 to a peak of $3.59 in 1955 and thereafter have been somewhat lower in each year. For the year 1959, sales amounted to $39,400,000, compared with $38,700,000 in 1958. However, notwithstanding the slight increase in sales, net income declined in 1959 to $1,920,000 or $2.93 per share, from $2,020,000 or $3.10 per share in 1958. The 1.7% increase in 1959 sales was accomplished despite lower selling prices. While increased efficiency largely offset higher material and labor costs, an increase in marketing expenses and the start-up costs of new products resulted in lower operating income.

In the first 9 months of last year, sales were 5% higher than a year ago. However, due to rising costs and other factors, earnings amounted to only $2.33 per share or substantially the same figure as the $2.32 reported for the initial 9 months of 1959. It should be noted that, in the third quarter of last year, earnings increased to $1.67 per share from $1.63 a year previous. The company's sales and earnings have a strong seasonal trend, with by far the greater part of profits in the second half of each year. Recently, the company estimated its sales, for the year 1960, at between $40,000,000 and $41,000,000, but indicated that earnings may not equal the $2.93 per share reported for 1959, due to write-offs of unusual expenses.

The high birth rate of recent years and the rising trend of the school-age part of the population are favorable factors in the company's outlook. In addition, the prospect of public building construction, other than schools, is promising. Further, the new Administration has indicated that it will favor aid to education. It is true that a number of new competitors have entered the company's field. Nevertheless, American Seating has the broadest line of products and is in a strong position, having introduced lower - priced lines several years ago.

At the current price of about 37, the stock yields approximately 4.3% on the well protected $1.60 per share annual dividend. From your inquiry, we do not know your investment objectives. If income is of importance

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government would either be overthrown or be unrecognizable.

For the sake of later generations, our government must continue to bend every effort to achieve some measure of meaningful disarmament, but at the same time great care must be exercised to examine carefully the motivations of the Soviet government, and the realities which lie behind the pronouncements and speeches. The Soviet Union cannot afford disarmament. END

Important Non-Ferrous Metals Picture For 1961

(Continued from page 508)

conclusion neglects to consider the likelihood of further cutbacks in mine production which have already been instituted by such important producers as **Noranda, Phelps Dodge,** and **Northern Rhodesian** mines. It is probable that other producers will follow their lead. There is too the possibility of interruptions to output in Kantanga and in Rhodesia if the Congo conflagation is extended. **On the other side of the picture is the conviction in some trade circles that the impressive European demand has been stimulated in part by inventory buying to provide against these very contingencies, and does not all represent true consumption.**

It is obvious that the copper picture is far from clear and to attempt to forecast the price trend in 1961 is hazardous. Experienced copper men when questioned quip that their crystal ball is badly cracked.

Obstacles to Reducing Production

It is easy to say that unified action by the major world producers to curtail unwanted production would result in eliminating surplus metal and maintain price stability which is so earnestly desired by producers and consumers alike. But this is a good deal like belling the cat. Here in this country such concerted action would cause an immediate investigation from Washington. Abroad there are strong nationalistic sentiments, as in Chile, against any curtailment of production. In Rhodesia, the state is likewise heavily dependent on copper revenue to meet its budget. In Canada the largest copper producer, International Nickel, is physically unable to reduce its copper output without curtailing production of badly wanted nickel at the same time, as the two metals occur in the same ore. And in the United States, the philosophy of at least one major producer appears at variance with others in the industry. Even if a cartel were legally allowable, it is unlikely it would work with companies with widely varying costs.

While the figures indicate a present excess of world production over consumption in 1961 of about 1 per cent, this assumes the absence of strikes at the mines. This is a pretty courageous assumption, for there never has been a year that production has not been interrupted for a longer or shorter period in some part of the copper world by work stoppage. Kennecott has just escaped a strike at its Chilean mine that seemed all but inevitable, and on July 1 its present labor contracts expire at its domestic plants. This throws uncertainty into a projection of present rate of production for the world's leading producer.

About all that he said with some degree of certainty is that there will be plenty of copper available in 1961 at a reasonable price and there will be no frantic price advance such as characterized 1955-6. Competent trade observers on the London Metal Exchange think that £200, or the equivalent of 25 cents a pound, is the minimum that can be expected, and they are inclined to believe that the present price of £218, or 27¼ cents a pound, is near bottom. It seems likely that the 1961 domestic price will vary between 27 and 30 cents during the year, and average close to the higher figure. Much depends on the rate of steel production, for copper demand closely parallels that of steel. **(Editor's Note:** The price of copper has just been reduced to 29 cents from 30 cents a pound.)

Copper Prices and Earnings

Over a period of time the earnings of copper companies are almost directly dependent on the price they get from their metal, and market prices for the copper shares reflect this. But the same isn't true for the short term. We have had a good instance of this in the recent market action of copper stocks, which staged a brisk advance following the settlement of the Braden strike in Chile, although on the Commodity Exchanges in New York and London the metal price broke badly.

It may be that experienced investors noted that copper shares were recently selling at about the same prices as in 1958, when the metal averaged 25.7 cents during the year. It was a fair assumption that with the present metal price nearly 20 per cent higher, that copper stocks were really on the bargain table, or in other words, that the worst had been adequately discounted. Admittedly there has been very little statistical evidence to support such a stand but copper speculators go a good deal on historical precedent. It seems likely that when 1961 has run its course they will be shown to have been right.

What of Aluminum

Aluminum producers view 1961 in a somewhat chastened mood. They are still optimists—perish the thought that the aluminum industry could ever be otherwise—but having guessed wrong at the start of 1960, they are inclined to play safe on 1961 and their forecasts betray a certain wariness. They acknowledged with refreshing candor that 1960 didn't come up to expectations. Not that 1960 was a bad year for their industry. It was not as good as 1959, but still was the second best year. Primary production was up to 2 million tons of ingots, 50,000 tons more than in 1959. But shipments of fabricated products, notably sheet and plate, were off about 6 per cent in 1960 from 1959. **Inventories of metal in the producers' hands at the end of the year were at an uncomfortably high level of 225,000-250,000 tons. Installed capacity and that scheduled to come on stream in 1961 totalled about 2,600,000 tons. But current demand calls for less than 2 million tons and in consequence the industry is operating at only 70 to 75 per cent of capacity. That's a costly procedure, for interest and amortization charges and overhead go on inexorably.**

Competition has been extremely bitter and has cut deeply into profits. As one producer wryly remarks, the year has been one of profitless prosperity. No doubt it

has been a real shock to the industry that its regularly anticipated 10 per cent annual increase in shipments had run into a road block. For consolation, let it be said they had erred in good company. Government economists at Washington had forecast a 10 to 15 per cent increase in pig and mill shipments in 1960 over 1959. This has proven to be way wide of the mark. Instead of an increase, shipments were some 130,000 tons less than in 1959.

However, this does not imply that consumers' use of aluminum was off by any such amount. What the figures don't show is the reduction in metal inventories that took place during the year. Consumers had started off 1960 with unusually large inventories of aluminum, anticipating a price increase which didn't materialize until late in summer, when signs were all to evident there was to be no 1960 boom. These inventories had to be liquidated, hence volume of new orders declined. If the amount of these liquidated inventories were included, the consumption figures would present a more cheerful aspect.

Increased production facilities resulted in a frantic scramble for business, with profits more or less disregarded. Naturally price weakness developed in semi-finished products. Prices for certain mill products, designed for mass production, were determinedly marked low in order to compete with other materials. This was all right for the long term but it was unkind of profits. Independent fabricators were especially hard hit. Producers of ingot maintained a good profit margin over their production costs but the fabricators had no such cushion.

The current level of production, now the lowest for a year, may decline further in the first quarter. While inventories in the hands of consumers are believed to be low, producers stocks of metal at their plants are high, and must be worked down before idle pot lines are reactivated. Government sources see little prospect that primary aluminum output will turn upward before the end of the first quarter and it may take longer. Total shipments in 1961 are unlikely to be much more than in 1960. But the turn may come sooner than anticipated, depending on the rate at which the general economy recovers. It has been historically true that the aluminum industry rebounds at a faster rate than the industrial average, once the turn is indicated.

Producers who had the foresight to establish affiliates abroad are in a preferred position. Exports have been excellent and European demand has been gratifying. Without this demand the domestic price situation would have been critical. There is no reason to anticipate that demand abroad will not continue to increase. Per capita consumption of aluminum in the European Common Markets is only 9 pounds, and in the rest of Free Europe only 6 pounds, as compared with 27 pounds in the United States.

In spite of the acknowledged over-capacity of the industry, producers are confident that all facilities will be needed by 1963 to supply demand for their metal. It seems to be a reasonable assumption. Producers are by no means alarmed over their expanded facilities. They declare that the very presence of this over capacity gives their customers, present and potential, definite assurance they will never be confronted with a metal shortage and permits them to make plans for expansion in their own fields with the knowledge that an adequate aluminum supply will always be available for them. An excess of production capacity is healthy and normal in an industry that is subject to sharp increases in demand in a competitive economy.

While per share profits for the aluminum producers made a sorry showing in 1960 considered on a cash basis before depreciation and amortization charges the picture was much better.

The Outlook for Lead and Zinc

Lead and **zinc** start 1961 under distressed skies. Until December the prices of these Cinderella metals had remained remarkably steady at 13 cents for zinc and 12 cents for lead. While these in no sense were bonanza prices, they indicated fair profits for the efficient integrated producers.

Then the roof fell in. The lead price was reduced to 11 cents a pound, the lowest since 1958. Zinc was cut to 12½ cents, then to 12 cents without bringing in any substantial buying. As so often happens in metal circles, a price reduction only causes buyers to retreat and await further developments until they feel sure that stability has been attained. Then St. Joseph Lead Co., one of the largest producers of lead and zinc, disrupted the market by announcing a discount to zinc buyers that amounted to a further ½ cent cut. The zinc market became so confused that a leading trade paper headlined its story "No price for zinc." **But it seems probable that zinc will settle in the 11-12 cent range for the first half of 1961. As long as London will sell metal at 10 cents, there is little hope that the domestic price will advance above the London price plus tariff and shipping costs of about 1½ cents a pound.**

The basic trouble with both zinc and lead has been over production in the face of declining demand. For zinc, demand was sharply cut by less call by the die-casters for the special high grade metal. An influencing factor has been the introduction of the compact car which uses from 25 to 35 pounds of zinc against 60 to 70 pounds in the full size models. As the shift to compacts increases, it will mean that less zinc for die-castings will be used by the auto industry which is second only to galvanizing as the largest consumer of the metal. Somewhat similarly, the brass industry has experienced very poor business that gives only halting signs of improvement in 1961, and brass is about 30 per cent zinc. On the other hand, the galvanizers who furnish zinc's biggest market, did quite well until the last months of the year, when the slump in steel output finally caught up with them.

But this is regarded as temporary. Zinc producers get much satisfaction from the liberal use of galvanized steel sheets in the lower portions of the body of 1961 models of Ford cars, and the probability that other auto manufactureres will follow suit. The galvanized sheet has been found to offer superior protection for the undersides of an automobile from corrosion caused by salt used on highways in winter. This is expected to provide for an annual market of 100,000 tons for this single application.

Statistically, both lead and zinc enter 1961 with discouraging figures. The Department of Com-

merce estimates that domestic consumption of 906,000 tons in 1960 was sharply lower than the 996,000 tons used in 1959, and it doesn't look for much improvement in 1961. This forecast can be confirmed by the year-end figures of the American Zinc Institute, which show that domestic shipments were nearly 130,000 tons lower in 1960 than in the year before while production increased. As a result, smelter stocks were 36,000 tons higher as the year ended than when it began. They would have been substantially larger had it not been for large export sales during the year. Unfortunately, with London prices now lower than they are here, export sales can hardly be expected to hold up to the 1960 level.

It is not too hard to explain the drop in zinc consumption during 1960, but the industry has difficulty with the production figures which should have declined because of long work stoppages at the New Jersey Zinc Co. and Bunker Hill Co. mines. On the contrary, smelter output was slightly higher than in 1959. With about 17,000 tons a month additional mine output in sight now that the strikes have been settled and the men are back at work, it isn't hard to see why the price cuts had to be made.

Neither zinc nor lead are growth industries, but there is no reason to believe that they are in a declining trend. The big integrated producers are long established solidly financed companies. Perhaps they have been proven in the past to rely too much on their position as producers of metals that have supplied world needs for countless decades and have neglected research and endeavor to develop new markets. This has been rectified in a substantial way, and good success has been achieved by organizations sponsored by the producers.

Holders of lead and zinc equities have failed to display any perturbation over the declines in the market prices of their metals. Quotations for such leading procedures as St. Joseph Lead, New Jersey Zinc, and American Zinc steadied or advanced after the price cuts were announced. This might be dismissed as an instance of market perversity, but a more reasonable explanation is that there had been an uneasy feeling for months that prices for lead and zinc had been too high considering the pressure on copper and aluminum and that a downward adjustment was almost inevitable. When the price cuts were made they cleared the air.

Zinc and lead lack the glamor appeal of some of the newer, rarer metal, the potentials of which have received enthusiastic support of speculators. But they have a record of indispensability in world industry and have lived through countless depressions and recessions to attain new levels of demand. Perhaps the unhappy history of the rise and fall of equities in such metals as uranium, titanium, or oithium during the last decade may give confidence to holders of lead and zinc stocks that the race is not always to the swift. END

Power Unlimited

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augment the efficiency of conventional power stations so as to extend, in effect, by 50% the world's resources of fossil fuels. Small thermoelectric generators (thermionic tubes and solar batteries) theoretically could be made 20 to 35% efficient compared with the present 10%."

► **Vice-President Herwald of Westinghouse Electric,** in a recent talk before the National Electrical Manufacturers Association, concluded that our major research problems in connection with direct methods of power generation center mainly about the search for materials which can stand the high temperatures and (in some cases) the corrosive effects of fuels used. Cost considerations are important also. He compares the efficiency of various devices as follows:

	Potential Efficiency	*Operating Temperature*
Thermoelectric	25%	2,000°F
Thermionic	25%	3,500
Conventional Steam Plant	42%	1,200
MHD	60%	4,500
Fuel Cells	75%	1,800

He points out that the major advantages of thermoelectricity and fuel cells are their versatility and the fact that, unlike a conventional generating plant, efficiency is independent of the size of the unit. Thus thermoelectric and fuel cells can be built up in series to serve a whole new area of special-purpose auxiliary-power devices for military and civilian uses. The thermionic device may well be used in combination with thermoelectrics; and both these and the MHD generator can be combined with an atomic reactor. All of these are useful as adjuncts to the use of atomic fuel because the latter can produce very high temperatures. END

Bonds As Investments For 1961

(Continued from page 495)

This writer believes that the economy will not respond rapidly to such measures and that the year is likely to end with the Federal Reserve Board index lower, rather than higher, than it is now.

Impact on Bonds

What is likely to be the impact on various types of interest—bearing obligations if, as we assume, the 1961 business level averages out on the FRB index some 10 points below that for 1960? Governments, corporates and municipals are already selling at a lower yield basis (higher prices) today than a year ago, and practical investors are naturally wondering whether the cyclical interest rate decline has terminated. The drop in short-term rates has been particularly sharp; 9-month governments are currently yielding 2.53% vs. close to 5% a year ago. Eight-year and 20-year government's, where the decline was not so drastic, are on a 3.65% and 3.77% yield basis, respectively. **In the light of our expectation that 1961 will be a year of further readjustment, no material change in short-term interest rates in either direction is indicated. Obligations of this character are hardly attractive to the general investor, although comercial banks and corporations are both believed to be heavily invested at this end of the spectrum.**

Position of the Various Bonds

Likewise, in both the medium and long-term areas little net variation in price over the balance of the year seems likely.

►Corporate bonds will be in relative short supply during 1961 because of the lower tempo of capital outlays. ►Both *municipals* and *governments* should, however, be in generous supply, the former because of the usually heavy schedule of public bond issues voted last November.

As for the federal government, the former expectation of a $4.0 billion surplus for the current fiscal year has been replaced by a mere pious hope of breaking even, and a heavy deficit, probably between $5 and $10 billion, is indicated for 1962. Between refunding and raising new money it seems probable that the new administration will have to market $50 billion in bonds during its first year. It seems unlikely that the Treasury will make a serious attempt to extend average maturities this year, and thus there will be no interference with yields on existing long-term governments.

Opportunities in Medium Grades

Second grade corporate bonds could well prove a profitable trading area in 1961. In the light of lower equity earnings likely to be reported many stockholders are likely to become impatient with stocks selling at 20 times earnings and less beguiled by the magic word "growth". The result could be a search for substantially better yields among medium grade bonds. On the surface it may seem paradoxical to sell good quality stocks and seek haven among second grade bonds during a period of business recession, **but many bonds where interest coverage provides adequate protection for liberal income, can be found. The demand for these bonds is then likely to spark some price increase.**

● A number of corporations have utilized the *convertible* medium because of the public's desire for an inflationary hedge with bond security. If, as we have argued here, the inflationary threat is receding, convertibles can be expected to experience price declines in 1961 with a corresponding rise in yields. **Convertibles in both the public utility and communication fields, where earning power should be sustained, will represent a probable exception to this statement.**

Yield Stability Expected in 1961

Since bond prices and yields are likely to remain generally stable during 1961, in contrast with the sharp fluctuations that occurred during 1958 and 1959, relatively little scope will be available for traders. For investors the advantages will be simply conservation of capital and distinctly higher yields than can be obtained on good stocks. A reduction in yields some time in the future would mean some appreciation for bondholders. This is not likely during 1961 — too many factors veto any material decline, despite the Democratic Party's dedication to easy money — but profits of this character are a possibility over the longer term. END

The Trend Beaters

(Continued from page 515)

prices and improved sales of petrochemicals and natural gas. A further rise in overall earnings is at least a fair possibility. Longer-term, the company's broad representation in markets throughout the world puts it in a position to capitalize upon the faster growth in petroleum use outside of the U.S. Of course, operating abroad does expose a firm to risks not encountered in the domestic market.

Rate Refund Will Not Hurt Too Much

Basically a natural gas pipeline operator, **Tennessee Gas Transmission** also has interests in refined oil products and crude oil. The company's gas pipeline system extends from the Gulf Coast and Rio Grande Valley to New England; Chicago and the upper Midwest are also served through subsidiaries. The postwar record of this company has been one of solid growth, with the increase in operating revenues little short of amazing. Earnings gains, however, have not fully kept pace, reflecting the constant need to raise new capital. For the twelve months ended September 30, operating revenues rose 24% above those of the year before, while net income was 33% higher. These startling gains stemmed in part from the fact that Tennessee Gas was collecting higher rates under bond based upon a 7% rate of return,

and incorporating the same in its financial statements. Unfortunately, the Federal Power Commission has subsequently set the allowable rate at 6⅛% and has ordered a refund. Based on this lower rate of return, it is estimated that 1960 earnings will approximate $1.35 a share, down from the $1.41 for the twelve months ended in September, but up from the $1.29 of 1959. Based on the continuing strong demand for gas, the constructive outlook for both 1961 and the longer term is well defined.

Beckman's Improved Earnings Margin

Beckman Instruments holds an important position in the field of precision analytical instruments for application in industry, medicine, defense and other areas. The product line is quite exotic, including such jaw-breaking items as potentiometers and spectro-photometers. This relatively small company has had particularly favorable sales growth experience in the postwar period, but profits have not always kept pace. In part, heavy research and development expense have retarded earnings. But also, the company's internal cost control system did not grow along with its sales. As a result, Beckman's fortunes slipped a few years back, the low point being touched in fiscal 1958, when a loss was reported. Since then, the entire operation has been tightened up, and earnings have recovered nicely. For the fiscal year ended last June 30, net from operations reached a record $1.92 a share, while an additional $0.32 was realized as capital gains. In the current accounting period, sales continued to rise sharply, up 23% for the six months ended December 31, and earnings kept pace. According to Dr. Beckman, the reason for the encouraging showing was the successful introduction of new products and continued strong demand for existing lines. The outlook for the months ahead points to continuation of the favorable sales picture; earnings are likely to remain in an uptrend also. For the three months ending next March 31, Beckman will benefit from comparison with a year-earlier period when the loss-producing Shockley Transistor Corp. was still owned.

Some Fish Swim Against the Stream

As can be seen by the brief review of these ten companies, no single reason can be cited to explain the favorable earnings pattern. The examples do, however, illustrate the continuing need for careful study of company statements and news releases. For one reason or another, some fish can usually swim against the current. The investor who can correctly identify these fish should be well on the road to investment success. END

For Profit And Income

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city banks. Attractive issues include **Chemical** (yielding 4%), **Manufacturers Trust** (3.9%), **Irving Trust** (3.8%) and, on the West Coast, **Bank of America** (4.2%).

How High is High?

The annual flood of corporate earnings reports—except from some of the early bird companies with fiscal years ending in October—will not begin for another month yet. Earnings for the year just ended, however, have already been estimated at $32 a share in terms of the Dow-Jones Industrials. This is higher than the 1958 recession-year results of $27.95, but otherwise will represent the lowest profit level since 1954. It will not be very much higher than the $30.70 earned on the Industrials in 1950, ten long years ago. That year the DJI high was 235, to make a price earnings ratio of only 7.7 times. Today's prices represent a multiple of 19.6 times estimated 1960 earnings. How can such a lofty appraisal be justified? Well, times have changed, many will say, and perhaps they have. Still, it might be wise not to throw all the old standards overboard. END

Answers to Inquiries . . .

(Continued from page 524)

to you, we may point out that 4.3% is a fairly good return. Further, the stock offers the prospect of at least moderate growth in earning power in the years ahead. We would recommend retention of this issue.

Anchor Hocking Glass Corp.

"Although I have been a subscriber to the Magazine for a long period of years, I have not availed myself of your Inquiry Dept. in almost a year. Among my holdings, I now find that I have a loss of about 9 points in Anchor Hocking Glass, which I purchased at 45 late in 1959. My investment objective is primarily capital appreciation and income is not important. At this time, I am wondering if I should eliminate this issue from my holdings."

M.L., Baltimore, Maryland

Anchor Hocking Glass Corp. manufacturers pressed and machine blown table glassware, dinnerware for home and restaurant use, ovenware, kitchen and refrigerator glassware, gift glassware, glass bottles and other containers, as well as metal and plastic closures. About one-half of the company's sales are represented by glass tableware and the company is the largest producer of this line of products. It is also the second largest producer of glass containers, which account for most of its remaining sales. The company's products are sold mainly to food packers, brewers, wine makers and manufactures of drugs, perfumes, cosmetics, household chemicals and other specialties. Tableware and ovenware are sold largely through chain and department stores, and jobbers. The company sells its industrial glassware directly to users. Last year, the company completed a major plant modernization program. It now operates 15 domestic plants and one in Canada.

In post-war years, both sales and earnings have been in a rising trend. Sales have increased from $70,600,000 in 1949 to $141,100,000 in 1959. In the same period, earnings have increased from $4,400,000, or $1.45 per share of common stock after preferred dividends, to $8,260,000 or $2.76 per share. The latter figure represented a good gain over earnings of $2.58 per share reported for 1958, after adjustment for the 2

for 1 stock split-up of January 1959.

While sales for the first 9 months of last year are not available, earnings declined to $1.66 per share from $2.05 a year previous, due largely to higher costs and competitive pressure on profit margins. The recent decline in earnings was particularly sharp in the third quarter of last year, when earnings amounted to 45 cents per share as against 73 cents a year previous. Thus, indications point to lower earnings for the year 1960. However, the $1.40 per share annual dividend can be viewed as reasonably secure.

The longer term outlook for the company is favored by the prospect of a relatively steady increase in the demand for glass containers and this is true also for tableware, although sales of this line tend to fluctuate with consumer spending. The company has the advantage of a relatively strong competitive position in its main products.

At the current price of about 36, the stock has declined substantially from its 1960 high of 44½. The yield on the $1.40 annual dividend is close to 3.9%. At the current price, we would suggest retention of this issue for further growth over the longer term.

Johnson & Johnson

"As you have often done in the past, please give me your valuable advice again. About three years ago, I bought 200 shares of Johnson & Johnson at 35. Since then, the stock has more than doubled in price and I am wondering whether I should take my profit at this time. For your information, income is relatively unimportant to me. My main invesment objective is longer term capital gains. I would indeed appreciate a reply from you at your early convenience."

N. P., Trenton, N. J.

Johnson & Johnson, together with its subsidiaries, is the world's largest manufacturer and distributor of surgical dressings and related items. The company's products are sold under the well-known trade names of Red Cross and Band-Aid. More than 1200 items are produced, including gauze bandages, surgical gauze and cotton, medicated plasters, first aid kits, surgical sutures, lubricating jelly, elastic bandages, supporters, dental floss, baby powder, oil shampoo, and dairy and industrial filter media. Other products include Modess, Yes tissue, Tek tooth brushes, Meds tampons, Bondex mending tape, and Texcel and Permacel industrial tapes. The company's main domestic customers are wholesale drug houses, surgical and dental supply houses, hospitals, retail drug and chain stores, and Government agencies. Operations of nonconsolidated foreign subsidiaries are large and offer the prospect of substantial long term growth. The company is broadening its overseas product line and increasing the number of local manufacturing arrangements. The company's growth has been aided by the development of new products. In 1959, it acquired McNeil Laboratories, thus expanding into the ethical drug field.

Sales have increased from $136.370.000 in 1949 to $301,190,000 in 1959, thus more than doubling in amount. In the same period, earnings gained from $9,280,000 to $15,440,000. After adjustment for the 2½ for 1 stock split-up of January 1959, earnings have increased from $1.70 per share in 1949 to $2.61 in 1959. The latter figure was higher than the $2.38 per share reported for 1958, after adjustment for the stock split-up mentioned.

For the first 9 months of last year, earnings showed a modest gain to $2.19 per share, from $2.15 a year previous. Thus, indications point to earnings, for the year 1960, of around $2.70 per share. The annual dividend rate is $1.00 per share.

In connection with reported earnings, it should be noted that the foreign subsidiaries are not consolidated, as previously stated. In the year 1959, earnings of these subsidiaries were equivalent to 72 cents per share of Johnson & Johnson stock, while dividends received from these subsidiaries amounted to only 20 cents per share. Thus, the undistributed equity in the foreign subsidiaries was equivalent to 52 cents per share over and above the $2.61 reported for the year 1959.

Nevertheless, the stock is selling at a high multiple of earning power at its current price of about 85, with a very low yield. We would recommend taking at least a substantial part of your profits. END

Book Reviews

The American Heritage Picture History of THE CIVIL WAR

Narrative by Bruce Catton

During the past century each new generation of Americans has discovered the fascination and deep meaning of the Civil War. An average of perhaps a book a day has been written on some aspect of this great conflict (the New York Public Library has over 18,000 volumes on the subject)—testimony to the abiding mark the struggle left on the American people.

Yet, despite the enormous bulk of the record, The American Heritage Picture History of The Civil War is a totally new kind of history, fresh in concept, and quite alone in execution.

Here is the way the war looked—in 836 pictures, including many, many more in color than have ever been seen in print before. The illustrations range from the superb photographs of Mathew Brady and the famous sketches of Winslow Homer to dozens of hitherto unknown paintings, drawings, and eyewitness battle scenes, hidden away or neglected for almost a century. No previous single volume of the war has even approached the magnitude and especially the color of this collection.

Here too is a fast-moving narrative, covering both the military and political aspects of the war, by the man who is probably its most famous living student, Bruce Catton.

Only a master of the subject could encompass those crowded years of history in such a vital narrative, evoking the sweep and drama of a nation at war, bringing to life leaders and common soldiers of both sides.

For the historian and the Civil War enthusiast, the color reproductions alone make this book a collector's prize. But it is more than that. For any American family, here is a dramatic record of the war we must all understand—brief and accurate, from the perspective of a century; evocative and absorbing, in the words of a master of the art; as close to life and as colorful as today's fine graphic art and pictorial journalism can come.

American Heritage Publ. Co. N. Y. C. $19.95

The Chord of Steel

By Thomas B. Costain

The Story of the Invention of the Telephone

With his usual skill and charm, Thomas B. Costain has written a detailed and personalized account of how Alexander Graham Bell made his great invention.

Mr. Costain describes how the idea came to Bell—the difficulties he had in securing a patent; the first dramatic and conclusive test with wires set up between Brantford and nearby towns in Ontario; the immediate results of that experiment.

Costain was raised in the city where this occurred and has thus been able to bring a good deal of new information to his account of the invention of the telephone.

Doubleday $3.95

The Magazine of Wall Street's
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L —U. S. Inds.
L —United Whelan

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